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NATIONAL HOUSING POLICY CONFERENCE AND PUBLIC HEARING

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON

HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON

BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE URGENT CHALLENGE THE COUNTRY FACES TO UNDERSTAND ITS HOUSING NEEDS. EACH PASSING MONTH BRINGS CLEARER EVIDENCE THAT CURRENT HOUSING TRENDS ARE FORCING AMERICANS INTO AN INTOLERABLE SITUATION. WE SEE SHOCKING PROBLEMS OF THE HOMELESSNESS, THE DISGRACE OF AMERICANS LIVING IN DILAPIDATED UNSANITARY HOMES, THE FRUSTRATION OF YOUNG FAMILIES CAUGHT IN THE LOSING STRUGGLE TO ACHIEVE HOME OWNERSHIP. THESE ARE TRENDS THAT THREATEN THE STRENGTH OF OUR FAMILIES AND STABILITY OF OUR SOCIETY

APRIL 7, 1988—LOS ANGELES, CA

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NATIONAL HOUSING POLICY CONFERENCE AND PUBLIC HEARING

THURSDAY, APRIL 7, 1988

JOINT SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS AND THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,

Los Angeles, CA.

The Joint Committee met, pursuant to notice, at 9:30 a.m., in Wadsworth Theater, Veterans Administration Complex, Wilshire Boulevard and 405 Freeway, Los Angeles, CA, Senator Alan Cranston (chairman of the joint committee) presiding.

Present: Senator Alan Cranston; Congresswoman Nancy Pelosi; Congressman David Dreier; Kathleen M. Connell, Chair and Managing Director, Center for Finance and Real Estate, UCLA; Elwin V. Svenson, Vice Chancellor, Institutional Relations at UCLA.

OPENING STATEMENT OF KATHLEEN M. CONNELL, CHAIR AND MANAGING DIRECTOR, CENTER FOR FINANCE AND REAL ESTATE, UCLA

Ms. CONNELL. Good morning. I'm Kathleen Connell. I'm Chair of the Center for Finance and Real Estate at UCLA's Graduate School of Management. The new Center for Finance and Real Estate has been the host of the two-day session, along with a number of co-hosts, including the California Association of Realtors, the California Building Industry Association, the California Mortgage Bankers Association, the California Savings and Loans Association, the California League of Cities and the Urban Land Institute.

We at the Center for Finance and Real Estate were very thrilled when Senator Cranston suggested bringing this very important public issue to California. I think it's notable that of the three public hearings that are going to be held on the National Housing Policy, the only one held outside of Washington, D.C. is the one being hosted here today in California which gives Californians a unique opportunity to participate in the process.

Yesterday we had a very busy day. We spent nine hours in deliberation with roughly two hundred people, many of them who are national and State experts in housing from the fields of finance, development and city and county governments, discussing the National Housing Task Force.

Senator Alan Cranston has been a leader, along with Senator D'Amato from New York in appointing a National Housing Task Force in September of 1987. That Task Force released its report last week, and Senator Cranston is here today to take testimony regarding that Task Force recommendation. He will be joined by Congresswoman Nancy Pelosi of California, as well, and we welcome both of them to the public hearing today.

I was asked on behalf of the people who participated in the conference yesterday to give a brief summary of the activities and the discussion, Senator and Congresswoman, that occurred yesterday. The panelists reviewed the Task Force recommendations, and they all believe very strongly that there is a need for housing finance at the Federal level. They are very encouraged by the new Federal, State, local government partnership that is suggested by the Task Force recommendations. Many of them feel the $3 billion annual allocation is just the beginning and would like to see even further financing, if possible, in an era of budget limitations.

It was curious to note that everyone felt that the Task Force recommendations could not work in California unless we also looked at it as more than just a housing problem, that we had to provide infrastructure support for our localities because of the very limited infrastructure capacity now for water, sewer, waste management and roads. These are critical infrastructure needs if we are going to develop residential communities or if we're going to add additional population to infill sites.

A second concern of our respondents yesterday was that there has to be some regional land use applications, that certain communities will deny affordable housing, placing those burdens on adjoining communities who might be reluctant to accept more than their fair share. So there is a concern that there be some type of regional planning dictate as part of the Task Force effort in its implementation.

I think a third issue that came up yesterday is that localities feel they have the capability of implementing the Task Force recommendations, but they are concerned about the locality State split, particularly in States where the States may not wish to participate and basically leveraging their share of Federal funds with private dollars, which is a requirement of the Task Force report. There was some concern about how those private dollars would be raised.

I think that you will find—and we are summarizing the 9 hours of participation and discussions from yesterday's conference in a formal report to your committee, Senator, that there are many innovative ideas that are being proposed by the panelists yesterday, and those reports will be submitted to your office by the end of the month, as well as the reports from individual participants. The two hundred participants filled out a response sheet at the end of the day to tell you personally what they felt the concerns were of Californians. So you will have at least two hundred Californians who asked to remain a focus group for you and a coalition for you as you move forward in your housing effort.

There was tremendous enthusiasm at the hearing yesterday, tremendous excitement, and I think you are building a very strong coalition to move forward on your National Housing Policy.

[The complete prepared statement of Ms. Connell follows:]

NATIONAL HOUSING POLICY AND PUBLIC HEARING

April 6, 1988

Opening Remarks by: Kathleen M. Connell, Chair of the Advisory Board and Managing Director of the Center for Finance and Real Estate at UCLA

Introduction:

Good morning and welcome to the National Housing Policy Conference. I am Kathleen Connell, Chair of the Center for Finance and Real Estate at UCLA's Graduate School of Management.

The new Center for Finance and Real Estate was established in May, 1987. The Center arranges field studies and internships in real estate and finance; offers graduate level classes in both fields; sponsors academic research on issues impacting real estate and finance industries; and hosts executive education programs. Quarterly publications of the Center feature articles written by our faculty regarding important research issues; a real estate indicators series; a professional symposium directed at analyzing critical trends in the industries; and upcoming events of the Center.

The Center, together with a number of industry groups, has, at the request of Senator Cranston, organized this two day conference and public hearing. Over the period of the next two days - both in the conference format and in the public hearing - you will have an opportunity to participate in the discussion of the important issues of developing a national housing policy.

Housing, I believe, will become the civil rights issue of the 1990's, driven by the frustration that is experienced, although in different ways, by a number of groups:

- by the first-time homebuyer who is unable, due to increasing home prices, to save sufficient dollars to meet the increasing downpayment requirements;
- by young people graduating from high schools and colleges who are priced out of the communities they grew up in;
- by low and moderate income households whose income cannot keep pace with rising rents and whose family is forced to spend over fifty percent of their income to secure shelter;
- by the nearly one million American households who are threatened with eviction from federally subsidized, but privately owned housing, when contracts for income restriction expire this coming year;

- by the long waiting lists for public housing in central cities;
- by the elderly on fixed income who are finding it difficult to secure safe, inexpensive housing;
- and by the growing visibility of hundreds of thousands of homeless who are unable to locate any housing accommodations and are living on the streets or in makeshift shelters.

As indicted from this listing of housing needs, housing problems are not isolated geographically, affect all age groups and are experienced by both renters and homebuyers.

The promise of "a decent home and a suitable living environment" set forth in the Housing Act of 1949 has become a reality for most Americans. But the 1949 commitment was "for every American family" and millions of U.S. families have not achieved that housing environment.

Given this reality, Senator Alan Cranston and Senator D'Amato, the Chairman and Ranking Member of the Senate Subcommittee on Housing and Urban Affairs, have undertaken a comprehensive review of housing policy by appointing a National Housing Task Force in September 1987. This Task Force was comprised of twenty-six individuals who have diverse experiences in housing policy, production, and finance. It has operated independently of Congress on a non-partisan basis- and will not be involved in lobbying as a group after the publishing of its recommendations.

Chaired by James Rouse, Chairman of the Enterprise Foundation and former Chairman of the Rouse Company and David Maxwell, Chairman of Fannie Mae, the task force issued its report last week outlining a ten point program to provide housing opportunity for all Americans. This report is the basis for the discussions throughout the conference today and panelists will be critically reviewing the recommended program proposals and discussing the strategies that will be most effective in their implementation.

As attendees of this conference, you will be asked not to listen, but to participate in the panel discussions, in the roundtable issues discussions scheduled for lunch and in the followup surveys, as the housing proposals we will discuss today are drafted into legislation.

There are two major addresses featured in today's conference schedule: the first, this morning by Anthony Downs, Senior Fellow of the Brookings Institution; and second, a luncheon address by David Maxwell, Chairman of Federal National Mortgage Association and Co-chair of the National Housing Task Force. There are four panels today focusing on the demographics and economics of housing; financing options for achieving increased affordable housing; the alternative housing production and delivery systems-public, private and non-profit; and the numerous public policy issues regarding the role and responsibilities of local and state governments in the creation of housing resources. The DRE exam will follow the last session of the day as will the reception hosted by the Urban Land Institute.

Tomorrow's public hearing is significant for Californians - it is one of three public hearings being held to receive comments on the proposed housing legislation and the National Task Force Report. It is the only hearing held outside Washington D.C. We are honored that Senator Cranston chose to hold a formal joint Congressional hearing on this important public issue here in California. Tomorrow at the public hearing, Senator Cranston will be joined by Representative Nancy Pelosi of California.

I think it is noteworthy that this conference is being co-sponsored by a coalition of industry groups: the California Association of Realtors; California Bankers Association; the Calif. Building Industry Association; Calif. League of Savings Institutions; California Mortgage Bankers Association; the League of California Cities; and the Urban Land Institute. This diverse and powerful coalition represents the public and private concerns of Californians regarding the availability and affordability of housing. I appreciate the support that all our co-sponsors have offered over the past months in coordinating this conference.

In my comments this morning, I would like to review three topics:

- one, what are the housing conditions that have led to the creation of a National Housing Task Force and the decision to sponsor this conference?
- two,what are the Task Force's recommendations?
- three, where do we go from here to accomplish an improved housing environment?

Current Housing Conditions

As a nation, we recognize the vital role of housing in community and economic development. The past commitment of the federal government; a highly competitive home building industry; and a flexible finance system based primarily on the thrift industry, an active secondary mortgage market, and insurance guarantees have made homeownership a reality for most middle and upper income Americans.

However, since the beginning of the 1980's, the housing environment has been dramatically impacted by a severe reduction in direct federal subsidies, by Tax Reform measures that removed the incentives to invest in real estate, by growing disparity between increases in income and the rising costs of housing, by a weakened financial industry and by growing numbers of restrictions imposed by state and local governments which effect costs, location and quality of housing development. In this past decade, progress toward improved housing quality, reduced housing cost burdens, and widespread homeownership has stagnated.

Seven specific conditions should be noted:

1. Homeownership Decrease - Until the 1980's uninterrupted growth in homeownership had occurred, from a level of 44% in 1938 to 66% in 1980. Since 1980, homeownership rates have suffered a decline for the first time since the depression. In California, homeownership has become an impossible dream for many first time homebuyers as a result of rising home prices, substantial downpayment requirements, and high real mortgage rates. Today, the average cost of a home in California is twice that of the national average.

2. Rent Affordability Imbalance - The incidence of housing problems, particularly affordability problems, are concentrated among the nation's poorest households. Most poor people are renters. In 1987, 63% of all poverty level households lived in rental housing. The number of low-income households(defined as under $10,000 in 1980) outstripped the supply available to them. More than 50% of all low-income renter households are paying 50% or more of their incomes for rent.

3. Reduced Federal Programs - With reduction in federal subsidy programs, such as Section 8, tightening of the use of tax-exempt bonds for housing and the elimination of tax incentives in the Tax Reform Act of 1986 to stimulate construction/rehabilitation of affordable housing, fewer than 25,000 units of such housing has been produced annually for low income households. This 25,000 figure assumes significance when compared to the roughly 200,000 units produced annually between 1976-1982 and the almost 400,000 units developed during years of maximum activity. Major Federal housing programs of the 1960's and 1970's have decreased dramatically over the past decade with an 80% decline in HUD funds for new housing commitments. Absent substantial governmental subsidy, it is not possible to build the necessary volume of good housing that lower income people can afford due to the high costs of land, construction and finance.

4. Expiration of Federal Contracts/ De-subsidization - Housing for lower income households is further exacerbated by an impending loss of federally assisted rental housing. More than 1 million units of federally assisted but privately owned housing may be lost either through expiration of subsidy contracts of the termination of low-income restrictions.

5. Regulatory Restrictions - Restrictions imposed by local governments are becoming a major cause of local housing affordability problems. Builder taxes and fees, restrictive building codes, zoning and density restrictions, and lengthy review processes are contributing to the inability of private developers to produce affordable housing by increasing the costs of such housing. In California, this situation is further extended by high land costs, slow-growth movements and limited infrastructure capacity for sewer, water, waste treatment and transportation systems essential to the development of residential communities.

6. Decline of Thrift Industry - The thrift industry, the primary vehicle for housing finance, is in a period of historical change. The healthy thrifts are in transition towards a broader based financial services business and the growing percentage of weakened thrifts are unable to perform an effective role as housing lenders. Thrifts represent over $800 billion in home mortgages- thus their reduced capacity for lending creates problems. However, the growth of the secondary mortgage market with the activity of the three federally sponsored intermediaries (Ginnie Mae, Fannie Mae, and Freddie Mac) has been vitally important to the availability of funds for residential mortgages.

7. Reduced State and Local Government Role - State and local governments' roles in stimulating affordable housing for low and moderate income renters and first time homeowners has been dramatically reduced by the limitation in the issuance of tax-exempt financing.

These are the major issues impacting the availability and affordability of housing. The demographic, geographic and income elements of each problem differ by region of country; city/suburb/rural communities; and income of households studied.

National Housing Task Force Recommendations

The Task Force Recommendations will be discussed in great detail by many of our following speakers. I will only indicate that four elements constitute the foundation for the recommendations:

- one, a conviction that the federal government must play a central role in meeting housing needs-and must be the principal source of funding;
- two, state and local governments are best able to identify and respond to needs;
- three, states are required to attract non-federal funds for affordable housing in return for additional federal investment;
- four, a variety of housing production systems- public, private and non-profit- should be encouraged.

Among the many recommendations are the following:

- a Housing Opportunity Program(HOP) funded at $3 billion for the first year to produce 150,000-200,000 rehabilitated and new housing units; these funds to be distributed at state and local levels with states required to provide match for one-half the funds and communities qualifying for the remaining one-half on the basis of need;
- the establishment of Community Development Banks, benevolent loan funds and a new national housing opportunity corporation to produce housing;
- the extension of expiring contracts for subsidized housing;
- the expansion of tax-exempt financing for low income rental housing, the development of tax policies favorable to low-income housing, improvement of the low-income tax credit program, and the continuation of revenue bond programs for targeted uses;
- and last, a rental assistance programs that doubles the 1989 HUD budget to provide assistance for 200,000 units.

All of the Task Force recommendations will be discussed in greater detail shortly.

What Actions Are Necessary to Develop a Positive Environment for the Creation of Affordable Housing?

With the Cranston/D'Amato national legislative housing effort, there is a new sense of awareness, recognition of compelling needs and an interest in assigning a high priority to creating a national housing program. Federal, state and local governments; public, private and non-profit resources; and urban and rural interests must be integrated to form a broad coalition or partnership, if the objective of increased affordable housing is to be fulfilled.

This conference will be the first step for Californians -

- to react to the proposed national housing program;
- to discuss state and local government capacities (administrative and managerial) to implement proposals;
- to debate housing priorities in California- and the allocation of available funding to them(rental vs. ownership; scattered sites vs. central locations; elderly, homeless, handicapped);
- to define the public and private financial resources to support housing efforts;

- to test the viability of the Task Force's innovative proposals for community development banks, benevolent loan funds and housing corporations.

The major issue to be addressed at the conference is : how to balance the need to achieve housing objectives in an era of local, state, and national budget limitations and, in California, a dominance of slow-growth movements restricting housing development.

You in the audience will become an ongoing focus group to discuss legislation as it develops; the nexus of a coalition group to insure state and local governmental action; and the support mechanism to build a consensus on affordable housing solutions that can be jointly endorsed by all industry, government and community groups.

You - and others like you around the country - are the solution to America's housing crisis- let us hope that today is the beginning.

Ms. CONNELL. I want to thank you again for letting us host the conference, and I would like to take this opportunity to introduce our most senior person from UCLA who is here today. That is Dr. Elwin Svenson, who is the Vice Chancellor of Institutional Relations at UCLA. Dr. Svenson has had over 30 years of administrative experience at UCLA in a range of university programs. He was appointed a Vice Chancellor at UCLA in 1975. He has major responsibility for liaison with the Federal Government and higher educational institutional affairs. He represents the Chancellor in the development and ongoing relationships with institutions in foreign countries and serves on the Administrative Committee for the International Studies and Overseas Programs, providing guidance and advice at the campus for all agreements involving international institutions. He has led or participated in campus groups that have designed and negotiated agreements with universities and governmental agencies in many foreign countries.

It is indeed my pleasure to introduce Vice Chancellor Svenson.

STATEMENT OF ELWIN V. SVENSON, VICE CHANCELLOR, INSTITUTIONAL RELATIONS AT UCLA

Dr. SVENSON. Thank you very much. It's a pleasure for me to be here. When one has been around as long as I have and one has been around as long as Senator Cranston has, their paths cross in a variety of ways.

Today, UCLA is co-sponsoring this National Housing Policy Conference and Public Hearing Program, which is one of the many ways in which the university has cooperated with the Senator's office and with the U.S. Government in a variety of activities.

Two other things that I want to mention before I make a brief introductory statement. The Senator has been involved in veterans affairs and chaired the Senate committee as either the majority or minority member for most of the time, I guess, that he's been in the Senate. We are on the veterans affairs—on the Veterans Administration facility. UCLA really began its relationship with the Veterans Affairs Administration in the late 1950's—in the late 1940's and early 1950's. And the growth and strength of our relationship in the field of health service for veterans has really no comparison in the United States. We have helped them, and they have helped us, and there has been a symbiotic relationship that really allows us to do many other things, including our renovation of this facility for use by the public and the veterans that are here for a variety of cultural and educational programs. And it's a pleasure to have the Senator wearing at least two of his hats in this particular facility.

The other—or, one of the other things that I would mention is that the Senator has——

Ms. CONNELL. Please excuse me. We have just received a bomb threat, and we will be evacuating the building. We would like people to proceed out quietly through the front doors and remove themselves as far from the building as possible. We will notify you when we are able to again resume the hearing.

[Whereupon, a recess was taken.]

Dr. SVENSON. I was about to extol the virtues of the Senator's escapades on the UCLA track because he likes to work out there, but I'll just say, Senator, that the only time that I've—I thought you usually started with a starting gun, but I guess this time you needed a bomb to get off the starting blocks.

This National Public Housing Policy Conference and Public Hearing will offer a forum for participants to express their views on needed legislation, share knowledge on financing and development options and discover entrepreneurial opportunities in the new housing legislation. Major subjects which will be highlighted are housing needs of low-income households, senior citizens, large families, first-time home buyers given economic conditions and available housing supply, innovative financing techniques, Federal-State incentives and private social investment structures that will prove effective in increasing housing opportunities, proposed Federal housing legislation and the Cranston-D'Amato Housing Task Force report, viability of housing production for community and the developer given the expanding slow-growth movement, limited federal subsidies and severely reduced tax incentives.

Except for the legendary Hiram Johnson, Alan Cranston is the only California Senator ever to be popularly elected to a fourth term. By the opening of the 100th Congress in January 1987, Senator Cranston had the third longest tenure of the forty-one men who have represented California in the United States Senate since 1950. He was first elected in 1968.

Senator Cranston is also the first democratic U.S. Senator in 58 years to be elected to a sixth term as his party's Whip, each time unanimously. He was first elected Whip, or assistant leader, in January 1977.

Senator Cranston serves on three permanent standing Senate committees: Banking, Housing and Urban Affairs; Foreign Relations; Veterans Affairs; and a Special Select Committee of the Intelligence Committee. He is Chairman of the Veterans Affairs Committee, the Subcommittee on Housing and Urban Affairs, which is why we're here today, and the Subcommittee on East Asian Pacific Affairs. He also serves on three other subcommittees: Securities, Western Hemisphere Affairs and Near Eastern and South Asian Affairs. Senator Cranston is also a member of the Democratic Policy Committee and the Democratic Steering Committee.

We are all pleased to welcome the Senator in this particular hearing, and we apologize for the delay.

Thank you very much.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Thank you all very much. I appreciate the hospitality of the National Housing Policy at this gathering. I thank the Veterans Administration for making this hall available: And I thank you all for your presence, and I welcome you to this hearing.

This hearing is the first in a series of joint hearings that the House Subcommittee on Housing and Urban Development and the Senate Subcommittee on Housing and Urban Affairs will hold on the future of national housing policies.

I am very pleased that Congresswoman Nancy Pelosi, on my right, and Congressman David Dreier, on her right, are with us this morning participating in this hearing. I look forward to working closely with them on housing policy in the months ahead.

We are here because the country faces an urgent challenge. Each passing month brings clearer evidence that current housing trends are forcing Americans into an intolerable situation. We see the shocking problem of homelessness, even for people with jobs. We see the disgrace of many Americans living in ramshackle, delapidated, unsanitary, improper homes. We see the impending loss of housing that is affordable to low- and moderate-income Americans. We see the growing frustration of young families, even those with reasonably good incomes, caught in the losing struggle to achieve home ownership.

These are trends that threaten the strength of our families and the stability of our society. More and more Americans in every region of the country understand that our housing needs must be given more attention. They increasingly realize that we cannot sustain the policy of governmental hostility to housing which has marked the past 8 years.

Fortunately, Congress can benefit from an outpouring of careful analysis that is coming from the country's top housing experts, some of whom are with us today, and leading organizations that support decent affordable housing.

A year ago, Senator Al D'Amato and I turned to my old friend James Rousch (phonetic), one of our generation's most imaginative developers, and David Maxwell, the highly-respected chairman of Fannie Mae. We asked them to suggest a fresh new framework for National Housing Policy, one that can meet the country's housing needs over the next decade. We asked them to organize a National Housing Task Force—they did, bringing together twenty-six men and women of achievement, people with unusual understanding, imagination and commitment and experience to decent affordable housing for all Americans.

The Task Force released its report last week. It is the product of a remarkably intense and dedicated effort over many months. Attention now turns to legislative action. In the next few weeks, I'll be working closely on a bipartisan basis with Senator Al D'Amato and Representatives Henry Gonzalez, Nancy Pelosi, David Dreier, Marge Roukema (phonetic), and our colleagues in both houses of Congress, to develop a sound realistic plan for affordable housing and to build a powerful national consensus for it. I'm confident we can develop bold but realistic housing legislation that has a clear profile with a management number of objectives and compelling themes. I believe we can make Federal support for housing for straightforward so its purposes can be understood at the national level, and more flexible so it can be tailored to differing local needs. I believe that we can develop a new housing policy that can evoke enthusiasm around the country among State and local leaders, among potential home buyers, among the poor and among home builders, realtors and mortgage lenders.

I believe we can develop a new housing policy that is of sufficient scope to address the concerns of a large segment of our population, those who are worried about the ability of themselves or their children to own a home, those who must deal with the difficulties of aging, as well as those who are poor.

I believe we can develop a new housing policy that builds on what has already proven to work well. We will keep the legislation on the fast track this year and move it through Congress as far as possible.

Senate and House housing subcommittees will conduct a joint review of the Task Force recommendations and seek the views, as we do today, of major housing organizations and the public. Two days of joint hearings have been scheduled for April 12th and 14th in Washington. Other hearings will be scheduled in Washington and around the country.

Details of a new framework housing bill will be announced during May and June, we hope, as each section is completed. We intend and expect to introduce the bill in both houses of Congress during July. In August, the Senate Housing Subcommittee will hold hearings on the legislation, and I expect that the Committee will report a bill to the full Senate before the August 15th recess.

Work on this major bill will make it more likely that housing will receive the attention it deserves during the campaign for the presidency and Congress, and frankly we're going to do our best to inject this as an issue into presidential, Senate and House races. Then we can proceed to enact the legislation early in a new administration with a new Congress if, as a presume will be the case, we don't complete the task this year.

We have a rare opportunity to build a new commitment to decent affordable housing in America. I especially appreciate the leadership that has been shown by the UCLA Center for Finance and Real Estate in co-sponsoring the National Housing Policy Conference, along with a number of major housing industry organizations.

Today's hearing is an important early step. It is fitting that the hearing be held in California since Californians and residents of other western states are hit by the problem of housing affordability as intensely as anyone in the country.

We are honored to have an outstanding group of witnesses. I welcome you all. I look forward to hearing the testimony.

I now turn to Nancy Pelosi, an outstanding member of our Congress, for her opening remarks. Nancy.

STATEMENT OF NANCY PELOSI, U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative Pelosi. Thank you, Senator Cranston. I am pleased to participate today with you and my colleague, Congressman Dreier, in this joint Senate and House hearing on one of the most important issues facing the nation: providing decent and affordable housing for all of our citizens.

I am honored to be here with you, Senator Cranston. Your leadership on housing issues was not only instrumental; it was magical, really, in the recent passage of the Housing and Community Development Act of 1987, the first major piece of legislation to address housing passed in 7 years.

In the interest of time, Mr. Chairman, I would like unanimous consent to enter the balance of my remarks into the record, but have the opportunity to convey the Chairman of our House Subcommittee remarks and enter the balance of his remarks, as well.

Senator Henry Gonzalez of Texas is the chair of the House Subcommittee on Housing. He writes:

> I am disappointed that I cannot be here this morning to join you for the first joint House and Senate hearing in 1988 on National Housing Policy, but a previous commitment has kept me in my home town of San Antonio. It is very appropriate, however, that these hearings begin in California, the home state of Senator Cranston. It is only after Senator Cranston became the Chairman of the Senate Housing Subcommittee that the Senate began to take seriously the housing needs of this country that have become increasingly desperate since the advent of the Reagan Administration. Passage of Public Law 100-242 signaled restoration of the House and Senate cooperation in solving housing problems, and I am encouraged by that new beginning.

As I requested, unanimous consent to enter the balance of Chairman Gonzalez's remarks into the record, and I just want to say that I am encouraged by the joint nature of this hearing. It's a strong signal that the Congress recognizes that passage of Public Law 100-242 was only a beginning and that we must redouble our efforts to solving the housing crisis.

I look forward to the testimony of our distinguished witnesses. Thank you, Mr. Chairman.

Senator **Cranston**. Thank you very much, Nancy.

[The complete prepared statements of U.S. Representatives in Congress Nancy Pelosi and Henry B. Gonzalez follow:]

STATEMENT OF CONGRESSWOMAN NANCY PELOSI

I am pleased to participate today with Senator Cranston and my colleague Congressman Dreier in this Joint Senate and House hearing on one of the most important issues facing the Nation—providing decent and affordable housing for all of our citizens. I am honored to be here with Senator Cranston, whose leadership on housing issues was instrumental in the recent passage of The Housing and Community Development Act of 1987, Public Law 100-242, the first major piece of legislation to address housing passed in 7 years.

Over the course of the Reagan Administration, the housing crisis has steadily deepened. While the Housing and Community Development Act was a first step in halting the decline of our Federal housing programs, much work remains to be done. This hearing today is significant because it is setting the stage for a re-examination of our national housing policy and looking toward developing a housing agenda for the 1990's.

It is clear that we are facing major problems in our efforts to achieve the goal of the Housing Act of 1949—the realization of a decent home and suitable living environment for every American family. America needs to help in housing low-income people. Conservative estimates indicate that over 4.2 million low- and very low-income households live in physically inadequate or overcrowded dwellings. An additional 9.2 million households are in physically adequate units but are cost-burdened, paying more than 30 percent of their income for rent. Add to these statistics the rapidly increasing homeless population—seventy percent of new homeless are families—and the housing crisis takes on astronomical proportions. As the cost of housing soars, the crisis extends well into the middle class.

The Congress and the Administration must make solving the housing crisis a real priority. Problems created by the growing number of people needing housing assistance, the decreasing pool of available low-income housing and the general decrease in the availability of Federal dollars will require new and creative solutions, including the development of innovative public-private partnerships and an increase in community and local initiatives.

The Federal Government has a clear responsibility to ensure that all Americans have access to safe and affordable housing. The current Administration has shirked that responsibility. I am encouraged by the joint nature of this hearing—it is a strong signal that the Congress recognizes that passage of Public Law 100-242 was only a beginning and that we must redouble our effort to solve the housing crisis.

I look forward to the testimony of our distinguished witnesses. Their expertise and experience in all aspects of housing, from homelessness to financing, from building, to management, to renting, is critically important to us as we develop legislative solutions to the serious housing problems facing our citizens. I thank them for their willingness to appear at this hearing, and I look forward to working with them in the future.

OPENING STATEMENT OF CHAIRMAN HENRY B. GONZALEZ

I am disappointed that I cannot be here this morning to join you for the first joint Senate and House hearing in 1988 on national housing policy but a previous commitment has kept me in my hometown of San Antonio.

It is very appropriate, however, that these hearings begin in California, the home State of Senator Cranston. It was only after Senator Cranston became the chairman of the Senate Housing Subcommittee that the Senate began to take seriously the housing needs of this country that have become increasingly desperate since the advent of the Reagan Administration. Until last year, members of the House Housing Subcommittee and I felt pretty lonely leading the charge to maintain our Federal housing commitment. Passage of Public Law 100-242 signaled restoration of House and Senate cooperation in solving housing problems and I am encouraged by that new beginning.

After a painful 7 year detour, however, we have a long way to go to get back on track to fulfill the goal we set for ourselves in the Housing Act of 1949—a decent home and a suitable living environment for every American family. I look forward to reviewing the information and proposals that will be presented by the distinguished witnesses in today's hearing. These joint hearings will be continued in Washington and other areas of the country. We are open to proposals for improving the most successful of our existing housing programs and new ideas for stimulating the production of affordable rental units for low-income families and for helping first-time homebuyers.

I am hopeful that these hearings and the reports being issued by a number of study commissions will help to inform the American people and politicians of the housing crisis we are facing and the potential solutions we should consider. This crisis will not abate until we find the consensus and the will to reorder the budget priorities of the Federal Government. I look forward to working with Senator Cranston and other Members of the Senate in developing legislation that will revitalize our national commitment to an equitable national housing policy.

Senator **CRANSTON**. It is now my pleasure to introduce for his opening remarks Congressman David Dreier, and I thank him particularly for his presence because it demonstrates the nonpartisan, bipartisan effort that we will be carrying on since he is a member of the Republican party. And we welcome you, David.

STATEMENT OF DAVID DREIER, U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative **DREIER**. Thank you very much, Mr. Chairman. I will say to you, Alan, that when people saw me driving up, many knew that I wanted to ensure that this would be a bipartisan hearing, and while I do have a telephone into my automobile I will assure you that I had nothing whatsoever to do with the fact that my late arrival brought about what did happen.

Let me say that it's been an honor for me to serve as a member of the House Banking Committee and the Subcommittee on Housing. I've had the opportunity with Senator Cranston to serve on the Banking Conference last year. And also, as a member of the Housing Subcommittee, I was pleased at the encouragement of a number of organizations represented here that I had a chance to jointly offer with him a very important amendment to the housing bill which did pass, and that was the amendment which increased the FHA mortgage insurance for high-cost areas from $90,000 to $101,250.

My being here as a Republican and a member of the House does, I hope, underscore the fact that there is a great interest on both sides in this issue.

I think that I should make a couple of opening remarks, though, Mr. Chairman, which do bear stating, and so I'll take just a couple of minutes to do that.

I think it's very important to state that the housing situation in this country is not as bleak as many opponents of President Reagan have pointed out just in the last couple of statements and from many of the remarks that you often see in the media. I would like to make a couple of points clear.

Since 1981, mortgage interest rates fell by nearly one-half, construction starts for single multi-family homes are sixty-five percent higher—and as I had a conversation with Bob Bannister of the National Association of Home Builders just the other night, the report that came out within the past 2 weeks demonstrated a 20.3 percent increase. In addition, total federally-sponsored credit for housing has quadrupled, and for the first time since the mid-1970's a family at the median income level can qualify for a typical home.

Now, there's no doubt whatsoever, Mr. Chairman, that in spite of the tremendous progress that we have made in this decade in providing Americans with adequate and affordable housing, there is more than can and should be done, particularly for low- and moderate-income Americans. A great deal of attention has been focused on the plight of the homeless. And while television programs rarely move me to tears, the program that was on just a few weeks ago of the mother who was forced to give up her child—the single mother—because she was homeless—I don't remember the name of the movie, but it was a very moving picture which underscored the plight of the homeless. That's why I, along with many of my colleagues in the House, share your support, Mr. Chairman, for a comprehensive overhaul of our Federal housing programs.

If the former ranking Republican of the Housing Subcommittee, the late Stewart McKinney, were here today, I'm confident that he would be heard saying, as he always was, that most of these federal housing programs are not working well and that we should start over from scratch.

The report of the National Housing Task Force formed by Senator Cranston and Senator D'Amato is certainly a very positive step in that direction. However, I would caution, Mr. Chairman, against any hasty enactment of these recommendations until they can be thoroughly reviewed and considered by the appropriate congressional committees and subcommittees. Adequate consideration of the Task Force report is needed because, in my view, it raises a number of concerns as well as addressing them.

For instance, the report recommends the creation of new programs without suggesting which current programs they should replace. Now, I know there have been some recommended changes in programs, but it seems to me that the proposed spending levels do not in any way compensate for many of the programs which have been recommended which are already due to be phased out. It doesn't make any sense whatsoever to continue spending billions of dollars annually on programs that offer marginal results or simply don't work at all.

The Task Force report also avoids altogether the ongoing debate over the value of housing construction subsidies versus rental assistance vouchers by simply recommending increases in both. And that, Mr. Chairman, I believe is not fiscally responsible. It's been very clearly pointed out by Mr. Linnows (phonetic), who is the Chairman of the Privatization Task Force, co-founder of Common Cause, a very activist Democrat in Chicago, that moving in the direction of vouchers is a positive step and privatization is the way to go.

The report also recommends, Mr. Chairman, the institution of the Housing Opportunity Program, HOP. This proposal has tremendous appeal and is almost identical to the proposal that was made by the Reagan Administration back in 1982. It would provide funds at the State and local levels with ultimate flexibility and minimal Federal regulations for low-income housing. It's an acknowledgment that State and local governments and private organizations are better equipped to deal with problems of the poor and the homelessness in their communities.

Based on this assumption, I have to rhetorically ask, why not return all economic development programs to the State level?

Another concern about the Task Force report is that it failed to mention the impact of rent control laws. They're known to be a major contributor to housing shortages and the homeless problem. Yet more and more cities seem to want to adopt rent control laws because they're politically popular among middle-income tenants. It's well-established that rent controls lead to deterioration of the existing housing stock, abandonment, lower property values and a decrease in a city's tax base.

There is one last point that I would like to make, Mr. Chairman, and it's in regard to the FHA program. The Task Force recommends increasing FHA mortgage limits and reducing down payments. But there is no mention made as to the impact of these proposals on the actuarial soundness of the mortgage insurance program.

The March 19th Washington Post had an article which said that FHA is experiencing much heavier losses resulting from foreclosures than anyone had expected.

Mr. Chairman, let me just finish by saying that there are many recommendations of the National Housing Task Force that I agree with, particularly in the areas of taxation, regulation and mortgage financing, but I'm sure we'll hear many more of those from the witnesses on the panel. Let me just say again that it's a real honor and privilege to be here with you. I would like to extend my thanks to the National Housing Policy Conference for putting together this hearing. It's something that I look forward to from the witnesses.

Thank you very much, Mr. Chairman.

Senator CRANSTON. Thank you very much, David. I can see that we're going to have a lively and a thoughtful discussion and examination of the recommendations of the Task Force and a very constructive effort to come up with sound legislation.

I agree with your remarks about needing to examine present programs, which are working and which are not. And one way that we may get the resources we need for some new approaches is by trimming back some of those that don't seem to be working as well as others might.

Representative **Dreier**. Absolutely.

Senator **Cranston**. We are now going to proceed to the first panel. Let me say one thing before doing that in regard to our time sequence.

I have to leave at 12:00. I would like to hear all the testimony. There are two panels, so I hope we can end this one at about—in about 55 minutes—three panels. Then, we're going to have to try to do each one in about 35 or 40 minutes. If each of you can try to summarize the key points you want us to be aware of in 3 to 5 minutes, and then of course submit your full statement in writing, they will be examined with great care, I assure you.

Our first panel will discuss Affordability and the First-Time Homebuyer. Witnesses on this panel include Leo Saunders, President-elect, California Association of Realtors; Dale Stuard, President, National Association of Home Builders; Willard Gourley, Jr., President-elect, Mortgage Bankers Association; George Breed, Chairman, State Government Relations Committee, Mortgage Insurance Companies of America; and Susan Jiminez, a local teacher who joins us today to discuss her difficulty in finding affordable housing in the Los Angeles area.

Whoever is going to start, please start.

STATEMENT OF LEO SAUNDERS, PRESIDENT-ELECT, CALIFORNIA ASSOCIATION OF REALTORS

Mr. **Saunders**. Thank you, Mr. Chairman. My name is Leo Saunders.

I'd like to assure Congressman Dreier that when the person called in and said that there was a bomb in the building, they were probably referring to my testimony. There are about twenty-six pages, and they are submitted, so we'll cut this down to about 3 to 5 minutes, as the Senator has asked.

As I said, my name is Leo Saunders. I'm a realtor from Walnut Creek, California, and I'm the president-elect of the California Association of Realtors.

On behalf of the more than 800,000 members of the National Association of Realtors, I'd like to congratulate you on the passage of the 1987 housing bill that Nancy referred to and thank you for your many efforts to expand and improve home ownership opportunities for all Americans.

Mr. Chairman, thank you also for your leadership in ensuring a proper and effective partnership between the federal government and the private sector in promoting home ownership. To that goal, Mr. Chairman, the National Association of Realtors is pleased to offer its comments on the issues of affordability and the first-time home buyer and the recently published report of the National Housing Task Force entitled "A Decent Place to Live." I'm sure you have it.

For the past 50 years, public policies have been pursued to ensure an effective system for the delivery of housing to all Americans and significant progress has been made towards achieving this goal. Tremendous housing needs that faced the nation in the 1930's in the war years have been alleviated by a combination of robust economic growth and successful Federal policies. These gains have brought the country much closer to its housing goals and resulted in the steady rise in the nation's home ownership rate from 44 percent in 1940 to over 60 percent in 1980. That's the good news.

However, in the past several years, housing policies have been victimized in the debate over the proper size and function of the Federal Government. The result has been the decline in the share of the nation's resources directed towards housing. The effects of this period of neglect are that while housing standards for the majority have improved over the past 40 years, the stock of affordable housing for middle- and low-income people has decreased or is decreasing. And I might add, it has become practically nonexistent for thousands that we now call the homeless.

Mr. Chairman, the decline in overall home ownership rates from 1980 to 1988 has signaled the reversal of the long-term trend and growth in this area. This general decline represents the first sustained one of its kind since the 1930's. In general, this reversal can be attributed to three things. One is home prices that have risen faster than income; secondly, increasing buyer difficulty in meeting down payment and closing costs; and third, higher mortgage payments.

In States which have relatively high housing costs, the drop in home ownership has been even more dramatic. For instance, here in California, there was 5.4 percent percentage drop in the home ownership rate between 1980 and 1987 compared to the 2.4 percent percentage drop experienced by the nation as a whole. Moreover, because housing prices are higher, the rate of home ownership is lower. Only 53.4 percent in California in 1987, but this decline represents the aftermath of the ongoing crisis in housing affordability.

The increasing housing cost burdens have hit low-income households the hardest. Since 1974, the number of low-income households has increased markedly. This trend reflects cut-backs in Federal funding from various income support programs, as well as the growing number of individuals with few marketable skills and a limited income earning capacity. A shrinking supply of low-cost housing, then, will most certainly result in increased housing payments relative to income for an ever-larger number of low-income households and further worsen this homeless problem.

Home prices have increased quite rapidly in recent years. For the United States as a whole, the median price existing family home in 1970—and that wasn't that long ago—was $23,000. Remember those good old days. By 1987, the median price home had risen to $85,800, a 272 percent increase. Here in California, the increase is far higher, due to a combination of high levels of demand, tight supplies and building activity has been constrained by high land costs, and we all know about anti-growth measures throughout our State. As a result, the median price of existing family homes in California went from $24,300 in 1970 to $139,400 in 1987. That's a 474 percent increase. Income over this time of course increased, too, but not as rapidly. According to the U.S. Bureau of Census current population reports, the median family income in the United States over the same 1970–1987 period increased only 215 percent, from $9,867 to $31,100 compared to the 272 percent increase in housing prices. Over this same period, California experienced comparable income growth with median family income rising from $10,828 in 1970 to $33,200. In comparison to the 441 percent jump in California housing prices, income growth has lagged woefully behind.

Because financing plays such a crucial role in the purchase of a home, it, too, is a major factor which impacts housing affordability. Mortgage interest rates, the most volatile factor, injects a degree of uncertainty and instability in the housing affordability picture. While the decline in interest rates during 1985 and 1988 helped—it helped it a great deal, boosting housing affordability, and Congressman Dreier talked about the period from 1981 to now—of course, that's helped a great deal. But still, our housing affordability is woefully low because of interest rates. It's worsened from 20.3 percent in 1970 to 28.7 percent in 1987. For the high-cost regions, the situation is even worse. California's housing expense-to-income ratio, for example, has increased from 21.1 percent to 39.1 percent in 1987.

Mr. Chairman, the National Association of Realtors concurs with the report of the National Housing Task Force's fundamental assertion that housing plays a vital role in human and community development. This nation's historic commitment to housing has yielded the many housing opportunities and resources that many Americans enjoy today. Our nation's commitment to housing has traditionally been a joint venture, a partnership of Government and industry. We believe that continued success in addressing this nation's housing problems and developing new solutions will involve the continued partnership of Government and industry, including an active role for the Federal Government, an efficient highly-competitive home building industry to produce more and better housing, a resourceful and flexible housing finance system that combines private and Government insurance and guarantees with a thrift and secondary market to make home ownership a reality for middle-income as well as upper-income Americans.

The National Association of Realtors recognizes and strongly supports this need for Government and industry to jointly evaluate the broad range of the nation's housing problems and to construct a firm public policy foundation upon which to advance the goal of home ownership.

We believe that the National Housing Task Force recommendations identify a comprehensive scope of the key national housing issues that need to be immediately addressed: So on behalf of the National Association of Realtors, we wish to extend to you our willingness and commitment to work towards the National Housing Policy goal and, as the report states, to fulfill the legitimate expectations of decent housing for all Americans.

Thank you for the opportunity to testify today, and I'll be glad to answer any questions that you may have.

Senator CRANSTON. Our next witness is Dale Stuard. I'd like to ask each of you, to the degree you can, as you're summarizing your viewpoints, to try to focus on the Task Force report and tell us what strengths and weaknesses you see in it and whatever additions, subtractions, modifications, whatever, would be appropriate. We will have your prepared testimony dealing with the overall housing needs of the country as you see them from your particular vantage points. But if you can zero in on the report that came to us and what you think of it and how it should be modified, that would be very helpful.

We can go on now to Dale, please.

Mr. SAUNDERS. Senator, I need to clarify one point real quickly.

In the report, then, there is a mention of FHA adjustable rate mortgages with a 5-percent cap. We buy in to that. But the 2 percent increase per year that's allowable, I question that because for an average loan of $80,000 to $100,000 for the average home buyer FHA, that could be anywhere from $150 to $200 a month increase.

[The complete prepared statement of Leo Saunders follows:]

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE A JOINT HEARING OF THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
AND THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON
BANKING, FINANCE, AND URBAN AFFAIRS

BY
LEO SAUNDERS
PRESIDENT-ELECT, CALIFORNIA ASSOCIATION OF REALTORS®
FIELD HEARING - LOS ANGELES, CALIFORNIA
APRIL 7, 1988

INTRODUCTION

Mr. Chairman, my name is Leo Saunders. I am a REALTOR® from Walnut Creek, California, and I am the President-Elect of the California Association of REALTORS®. On behalf of the more than 800,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I would like to congratulate you on the passage of the 1987 Housing Bill and thank you for your many efforts to expand and improve homeownership opportunities for all Americans. Mr. Chairman, thank you also for your leadership in assuring a proper and effective partnership between the Federal government and the private sector in promoting homeownership. To that goal, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is pleased to offer its comments on the issues of affordability and the first time homebuyer and the recently published report of the National Housing Task Force, entitled "A Decent Place to Live."

HOUSING: A DECADE OF NEGLECT

For the past 50 years, public policies have been pursued to ensure an effective system for the delivery of housing to all Americans, and significant progress has been made toward achievement of this goal. The tremendous housing needs that faced the nation in the 1930s and the war years have been alleviated by a combination of robust economic growth and successful Federal policies. These gains have brought the country much closer to its housing goals and resulted in a steady rise in the nation's homeownership rate from 44 percent in 1940 to over 65 percent in 1980.

However, in the past several years, housing policy has been victimized in the debate over the proper size and function of the Federal government. The result has been a decline in the share of the nation's resources directed toward housing. The effects of this period of neglect are that while housing standards for the majority have improved over the past 40 years, the stock of affordable housing for middle and low-income people has decreased or is decreasing. Since 1980, homeownership rates have fallen after growing for the prior three decades, with homeownership rates declining dramatically for individuals less than 35 years of age. Many of the statistics reveal that housing policy has failed -- and indeed is failing too many people.

THE DECLINE IN HOMEOWNERSHIP

A decline in overall homeownership rates from 1980 to 1986 has signaled a reversal of the long-term trend of growth in this area. This general decline represents the first sustained one of its kind since the 1930's.

In general, this reversal can be attributed to home prices, which have risen faster than income in recent years, increasing buyer difficulty in meeting downpayment and closing costs and higher mortgage payments.

Specifically:

- o Real income has increased only 7 percent since the 1970's, while real home prices have risen 32 percent. This relationship can be measured by the ratio of existing single-family median home prices to median family income.

- o The actual decline in homeownership rates from 65.6 percent of households in 1980, to 64.0 percent in 1987 represents a 2.4 percent change.

- o Based on the Association's data, it can be estimated that there are almost 1.5 million fewer homeowners today than there would have been if the 1986 homeownership rate had attained the 1980 level.

In states which have relatively high housing costs, the drop in homeownership has been even more dramatic. For instance, in California there was a 5.4 percentage point drop in the homeownership rate from 1980 to 1987, compared to the 2.4 percentage point drop experienced by the nation as a whole. Moreover, because housing prices are higher, the rate of homeownership is lower—only 53.4 percent in California in 1987. This decline represents the aftermath of the on-going crisis in housing affordability.

The increasing housing cost burden has hit low-income households the hardest. Since 1974, the number of low-income households has increased markedly. This trend reflects cut-backs in federal funding for various income-support programs, as well as the growing number of individuals with few marketable skills and limited income-earning capacity. A shrinking supply of low-cost housing, then, will most certainly result in increased housing payments relative to income for an ever larger number of low-income households.

FACTORS AFFECTING HOUSING AFFORDABILITY

Several years ago, the NATIONAL ASSOCIATION OF REALTORS® began monitoring the affordability of housing by developing a Housing Affordability Index. The index includes the median prices of resale homes and mortgage interest rates and compares the resulting mortgage payment on an 80% loan to the ability of the median income household to carry the loan.

While the Association's index indicates that affordability has increased, it does not reflect the fundamental problems which exist in the first-time homebuyer segment of our population. First-time homebuyers, typically adults in the 25- to 34-year old category, face the most difficulty in realizing the goal of homeownership. As evidence of this growing trend, there has been an empirically observed correlation between the decline in the home price-to-income ratio for first-time homebuyers, and the overall, decline in the homeownership rate.

As a measure of affordability, the decline in the home price-to-income ratio means that the "typical" first-time homebuyer is unable to purchase the "typically" priced home.

In California, for example, the average income for households under age 35 is $31,000. At this level of income a household could qualify to buy a home priced around $110,000 (assuming a 20 percent downpayment). Only 28 percent of the existing homes sold in the state were priced at $110,000 or below. The situation is even worse in the very high cost areas like San Francisco where less than 10 percent of the homes were priced at or below $110,000.

The Rapid Increase in Home Prices

Home prices have increased quite rapidly in recent years. For the U.S. as a whole, the median priced existing single-family home in 1970 was $23,000, by 1987, the median priced home had risen to $85,600--a 272 percent increase! In California, the increase is far higher due to a combination of a high level of demand and tight supplies, as building activity has been constrained by high land costs and anti-growth measures. As a result, the median priced existing single-family home in California shot from $24,300 in 1970 to $139,400 in 1987--a 474 percent increase!

A Slower Rate of Increase for Incomes

Incomes over this time increased too, but not as rapidly. According to the U.S. Bureau of the Census, "Current Population Reports," median family income in the U.S. over the same 1970 to 1987 period increased only 215 percent from $9,867 to $31,100, compared to the corresponding 272 percent increase in housing prices. Over this period, California experienced comparable income growth, with median family incomes rising from $10,828 in 1970 to $33,200 in 1987. In comparison to the 441 percent jump in California housing prices, income growth has lagged woefully behind.

Problems With Volatile Mortgage Rates

Because financing plays such a crucial role in the purchase of a home, it, too, is a major factor which impacts housing affordability. Mortgage interest rates--the most volatile factor--injects a degree of uncertainty and instability into the housing affordability picture.

While the decline in interest rates during 1985 and 1986 helped boost housing affordability, the long-term increase in housing prices as compared to income growth remains a real threat to recent gains. If housing affordability is measured by the ratio of housing expenses-to-income, then housing affordability in the U.S. has worsened from a burden of 20.3 percent in 1970 to 26.7 percent in 1987. And, for high cost regions, the situation is far worse. California's housing expenses-to-income ratio, for example, has increased from 21.1 percent in 1970 to 39.1 percent in 1987.

There is also evidence that affordability will continue to be a problem in the future when the incomes of renters and homeowners are compared. Census data show that the 1980 median annual income among renting households was $10,500, or only 53 percent of the $19,800 median among homeowning households. Renters not only have lower incomes than homeowners, in general, but the income of renting households has been rising more slowly than that of homeowning households. From 1970 to 1980, median incomes rose 66.7 percent among renters but 104.1 percent among owner occupants. While part of this gap was caused by the shift of some renters to homeownership between these two periods, it does not speak well for homeownership trends in the future as more and more renters find that their income growth fails to keep pace with the rising costs of homes.

With housing prices rising rapidly and income gaining at a much slower pace, it is extremely difficult for first time homebuyers to save enough money for the often substantial downpayment required to buy a home. For example, in California a 20 percent downpayment on the median priced home is almost $28,000.

THE REPORT OF THE NATIONAL HOUSING TASK FORCE: A DECENT PLACE TO LIVE

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® concurs with the Report's fundamental assertion that housing plays a vital role in human and community development. This nation's historic commitment to housing has yielded the many housing opportunities and resources that many Americans today enjoy. Our nation's commitment to housing has traditionally been a joint venture - a partnership of government and industry. We believe that continued success in addressing this nation's housing problems, and developing new solutions will involve the continued partnership of government and industry: including an active role for the Federal government; an efficient, highly competitive homebuilding industry to produce more and better housing; a resourceful and flexible housing finance system that combines private and government insurance and guarantees with a thrift industry and secondary market to make homeownership a reality for middle-income as well as upper-income Americans.

Mr. Chairman, the Task Force Report, "A Decent Place to Live," is a valuable blueprint for designing this nation's future housing policy and identifying the proper role of both government and industry. We are grateful for the opportunity to offer our perspective on that blueprint today. The

NATIONAL ASSOCIATION OF REALTORS® would also appreciate the opportunity to comment separately, at the appropriate forum, upon any specific legislative proposals that initiate the Task Force's recommendations.

REALTOR® PRINCIPLES

The NATIONAL ASSOCIATION OF REALTORS® believes that five general principles should govern the establishment of a national housing policy. These principles, as outlined below, are the standards by which the NATIONAL ASSOCIATION OF REALTORS® evaluates the general recommendations of the National Housing Task Force.

- Homeownership is a Cornerstone of our Democratic System of Government - The opportunity to own a home motivates all sectors of American society toward common economic and social goals.

  Homeownership fosters pride and participation in one's community, encourages saving, and promotes social and political stability.

- Every Individual Should have the Opportunity to Live in Decent and Affordable Housing - The 1949 Housing Act set a goal of a "decent home and a suitable living environment for every American family." We believe the private sector can meet most housing needs, but that the direct assistance of the Federal government may, at times, be necessary, and should be recognized as a national priority.

- The Free Enterprise System and Competitive Markets Should Provide the Principal Sources of Homeownership Opportunities - We believe that the Federal government should not interfere in areas where housing needs may be fully met by the private sector. Furthermore, the rights of individuals to own real property and enjoy the benefits of ownership must be protected.

- Maintaining Low Real Estate Interest Rates is Essential for the Provision of Affordable Housing - The Federal government should place a high priority on pursuing a responsible mix of fiscal and monetary policies to assure a sufficient flow of affordable mortgage capital.

- The Cost of New and Existing Homes Should be Minimized - Such market restrictions as inappropriate zoning should be evaluated and amended in full consideration of potential housing opportunities.

NATIONAL HOUSING POLICY DISCUSSION

The NATIONAL ASSOCIATION OF REALTORS® recognizes and strongly supports the need for government and industry to jointly evaluate the broad range of this nation's housing problems and to construct a firm public policy foundation upon which to advance the goal of homeownership. We believe that the National Housing Task Force recommendations identify a comprehensive scope of the key national housing issues that need to be immediately addressed and we are pleased to offer our comments on each of these goals. (Please note: the NATIONAL ASSOCIATION OF REALTORS® has not approved official policy on several of the recommendations advanced by the Task Force, however, we plan to do so during our Legislative Meetings in May, 1988.)

Design and Implement a New System for Delivering Affordable Housing

The NATIONAL ASSOCIATION OF REALTORS® is very interested in the "Housing Opportunity Program" (HOP) recommended by the Task Force, whose goal is to stimulate state and local initiatives to develop, renovate and conserve housing for those in need. We believe that one of our nation's most challenging opportunities in housing lies in the recovery and rehabilitation of our neighborhoods. We applaud the action of communities which have implemented community revitalization efforts that are designed to improve the quality of life in the neighborhoods of our cities, towns and communities. The NATIONAL ASSOCIATION OF REALTORS® plans to fully consider this proposed program.

At the same time, we recognize that there are specialized needs which cannot be met by the local communities. We urge governments at all levels to provide cost effective solutions to the housing needs of the elderly and handicapped.

Identify New Sources of Capital and Create a New Institution to Promote Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® will also be examining the Task Force's recommendations of drawing private funds and the private banking system into financing housing for low-income housing.

Maintain and Improve the Stock of Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® recognizes the need to preserve the current rental housing stock through recycling and renovation. We call on all levels of government to meet this demand by removing disincentives to the financing, production and improvement of rental housing for citizens of all income levels.

Mr. Chairman, the partnership between private owners and the Federal government has benefited low-income housing residents and has helped minimize the pressure on the supply of unassisted housing affordable to other low-income households. Even though the NATIONAL ASSOCIATION OF REALTORS® believes that Federal policy should work toward maintaining these relationships by renewing assistance contracts and providing appropriate inducements for continued participation by private owners, we nonetheless would oppose further attempts to abrogate an owner's right to prepay their multifamily housing loan. At the same time, we also believe that the needs of the tenants must be met while maintaining the legitimate rights of the owners to dispose of their properties.

Restore and Revitalize the Public Housing Program

The NATIONAL ASSOCIATION OF REALTORS® supports the Federal government preserving the existing public housing stock by assuring the continued availability of modernization funds. We encourage the government to use scattered site development rather than the single site public housing approach.

The NATIONAL ASSOCIATION OF REALTORS® also supports the concept of public housing homeownership provided that there are assurances that the tenant can afford all the costs of ownership; and local resources, rather than Federal resources, are utilized to the maximum extent possible to assist those persons who want to move into homeownership; and tenants are provided with professional management assistance on homeownership responsibility and property maintenance.

Utilize Tax Policy to Promote Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® shares the National Housing Task Force's belief that tax policies that encourage the production and preservation of rental housing should be one of the hallmarks of a national housing policy. Furthermore, as the Task Force asserts, the tax code echoes the overwhelming importance Americans place on homeownership by allowing deductions of mortgage interest and property taxes, tax-free rollover of appreciated property and tax exempt gains for homeowners over 55. We believe that the policy objective in this country of providing adequate housing for all families, and particularly low-income families, is a priority that supercedes tax policy considerations. Unlike other investments in real estate, low-income housing is not profitable on its own and must, therefore, offer added incentives to induce the required capital.

Lessen the Gap Between Housing Costs and Income

The NATIONAL ASSOCIATION OF REALTORS® concurs with the Task Force's assessment that current opportunities for low-income individuals to achieve personal growth are integrally linked to the enhancement of communities and subsequently to the improvement in the services government delivers to its citizens. We further agree with the Task Force's conclusion that "the resolution of the housing problem facing low-income people cannot await a good and permanent solution to the underlying problem of poverty."

As we previously mentioned, the NATIONAL ASSOCIATION OF REALTORS® recognizes that affordability problems have become more pervasive and as such direct federal assistance is necessary in certain situations to alleviate the rent burden of those in need. As far as tenants currently paying 30% of their adjusted income for rent, we will be examining the Task Force's recommendation of requiring a sliding scale of tenant payments based upon family size and income.

Enhance Federal and State-Level Homeownership Programs

The NATIONAL ASSOCIATION OF REALTORS® shares the Task Force's belief that the federally-sponsored mechanisms for furnishing assistance to homeowners should (a) operate without substantial direct subsidy cost to the Federal government, (b) focus primarily on first-time homebuyers, particularly those of low and moderate incomes, and (c) contemplate the repayment or reduction of direct assistance, where feasible.

The Federal government's primary mechanism for promoting first-time homeownership consists of the Federal Housing Administration (FHA) mortgage insurance program. The NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued role of the FHA program and, as we have done in the past, we will continue to support program changes that reflect the ever-changing market conditions and consumer demands of first-time, and low-to-moderate income homebuyers.

We are pleased to note that the Task Force recognizes the Veterans Administration (VA) home loan guaranty program for its function as a valuable component of this nation's national housing policy. Unlike the FHA program, however, the VA program is presently experiencing a severe depletion of its capital - which threatens the continued viability of the program as an entitlement program for veterans. We are grateful, Mr. Chairman, that in your capacity as Chairman of the Senate Committee on Veterans' Affairs, you have taken constructive steps to fully evaluate the problems faced by the VA and to assure the continuation of the home loan guaranty program.

Maintain the Housing Finance System

"For more than half a century," the Task Force Report notes, "the federal government has facilitated the flow of funds to housing through both direct and indirect supports and especially through the creation of a variety of institutions to buttress the housing finance system." The NATIONAL ASSOCIATION OF REALTORS® strongly supports the Task Force recommendation that the housing finance system be maintained. We intend to continue to defend the housing finance system against both legislative and regulatory attempts to impose additional costs or burdens on the successful programs of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

Promote Fair Housing Practices

The NATIONAL ASSOCIATION OF REALTORS® subscribes to the policy of fair housing; which we believe can be best achieved through continued leadership, observance of law, education, and mutual cooperation of the real estate industry and the public through a free and open housing market. We believe that the appropriate goal of a national fair housing policy is to assure a free choice of housing.

Improve Housing Programs for Rural America

In relation to the Task Force's statement that the Federal rural housing program currently in place should be used to the greatest extent practicable in improving housing and living conditions in rural areas, the NATIONAL ASSOCIATION OF REALTORS® has established a coordinating network with the Farmer's Home Administration in order to promote mutually favorable working relationships at the federal, state and local level.

CONCLUSION

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® believes that the establishment of a National Housing Policy is of utmost importance. The report of the National Housing Task Force, "A Decent Place to Live" is a valuable starting point for addressing this nation's housing problems.

The NATIONAL ASSOCIATION OF REALTORS® shares the goal that a revitalized national housing policy should be established rapidly and carried forward vigorously. And, on behalf of the NATIONAL ASSOCIATION OF REALTORS®, we wish to extend to you our willingness and commitment to work toward that national housing policy goal, and, as the Report states, "to fulfill the legitimate expectations of decent housing for all Americans".

Thank you for the opportunity to testify today. I will gladly answer your questions.

Senator CRANSTON. Mr. Stuard.

STATEMENT OF DALE STUARD, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. STUARD. Thank you Mr. Chairman and members of the House Housing Subcommittee.

My name is Dale Stuard, and I'm a Newport Beach builder. I'm the President of the National Association of Home Builders.

And on behalf of the National Association of Home Builders, 150,000 members, and the more than eight million employees which these members represent, as well as the public we serve, I am pleased to have this chance to testify on a subject of the utmost importance to all Americans, the development of a comprehensive housing policy which will function as a blueprint for legislative action through the 1990's.

First, let me thank you for returning housing to the national agenda by enacting the Housing and Community Development Act of 1987: It was an important first step, and now we have to follow through with its initiatives and we must implement a housing policy that will fulfill the American promise of decent, affordable housing for all. There are now better words to describe the importance of housing than those of Abraham Lincoln: "The strength of our nation lies in the homes of its people." Homes and the sense of the community that they create are critically important to the civility of our nation. Homes shelter, homes nurture, homes are the cornerstone of our democratic system and our unique way of life. Without homes, families cease to exist, and without families our nation will cease to be. Homes are the foundation of our strong economy: Each year they provide thousands of jobs in construction and related industries and billions of dollars in state and local taxes.

In 1987 alone, housing and the related industries comprised about five percent of the gross national product.

Homes are also a source of financial security. In essence, they are a live-in savings account for millions of families who may have no other investment. More than $3 trillion in equity can be tapped by home owners to provide a backstop to their Social Security or to secure their retirement or to educate their children in college.

Yet despite housing's importance, we face grave housing affordability crises. Our home ownership rate is falling with the most dramatic declines among the young: The home ownership rate for those aged 25 to 29 has dropped from 43.2 percent in the 1980's down to 35.9 percent in 1987. For household ages of 30 to 34, the rate dropped from 61.1 percent down to 53.2 percent, and we're seeing dramatic increases in the number of homeless, the near-homeless, whose families with whole families living in public shelters and individuals who call the street home and garage people with only a roof over their head at night.

Contributing to the homeless crisis are the dramatic shortage of low-cost rental housing and a rapidly increasing rent burden. An estimated sixteen million renter households pay more than 30 percent of their income for rent, and young single parent families are paying more than 58 percent of their income for rent.

Now, these aren't problems that have been ignored. The Federal Government has established programs to help make housing more affordable for the low and moderate income people and provide housing for the needy. But since 1980, the HUD budget has been cut by 70 percent. These cut-backs, plus ongoing changes in the country's demographic and economic landscape, have contributed to the affordability crisis, put upward pressure on rents and caused untold hardship among those who need housing assistance the most.

Further complicating the housing affordability equation is the cushion of infrastructure. Inequitable, excessive and unreasonable fees for public facilities have added enormously to the cost of new homes and to rental housing. Inadequate public facilities have generated restrictions limiting new growth and increasing upward pressure on housing costs. Our crumbling infrastructure such as roads, sewer facilities, water works must be repaired and maintained and added to if we are to maintain a decent quality of life, a quality of life we expect here in America.

Clearly, the housing affordability crisis will not improve unless we act. We need to enact a new National Housing Policy. My written testimony highlights five major areas: home ownership, regulation and growth restraints, rental production, the existing assisted stocks and special needs. Time will not permit me to elaborate on them now, but let me highlight some of the key points that we would like to put forth:

First, we need to maintain the home owner mortgage interest property tax deduction, which has been the cornerstone of home ownership in our country. We need to preserve and strengthen the Government housing support programs, such as FHA, the Farmers Home Administration, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Assocation. We need to base FHA maximums, loan maximums, on the median area home price. We need to allow veterans to take advantage of the lower payments offered through the adjustable rate mortgage. We need to extend the authority for mortgage revenue bonds. We need to allow buyers to establish individual housing accounts, IHA's, or withdraw funds from their IRA's, the Keogh's or the 401K retirement plans for the purchase of homes. We need to change the down payment structure of FHA loans to acknowledge increasing home prices. We need to promote low-income home ownership through the support of such government-industry partnerships, initiatives such as the Neamiya (phonetic) program and the Bay Area program, BRIDGE, that they're building up in the Bay Area.

We need to eliminate regulatory barriers to affordable housing at the state and local levels. We need to establish some type of program, whether through block grant or other mechanisms, that will foster the production of low and moderate income rental housing. We need to extend the joint venture for affordable housing. We need to eliminate restrictions on the use of tax-exempt bonds for financing infrastructure. We need to create a national infrastructure bank to provide long-term, low-cost financing for capital investment in new facilities. We need to exempt residential properties from the costly Davis-Bacon requirements. We need to provide additional tax incentives for the production and maintenance of low-income rental housing. We need to renew rental subsidy contracts under the loan management set-aside to avoid displacement of tenants and/or mortgage default by owners. And we need to initiate programs to prevent loss and abandonment of government-assisted housing.

We need to address the housing needs of rural families, the elderly, the handicapped and the homeless. It is increasingly clear that we can meet the challenge of today and the decades ahead only if we renew our national commitment to housing. It is time to look ahead. It is time to plan for the future. And it is time to make the commitment necessary to ensure that housing truly will be the American promise.

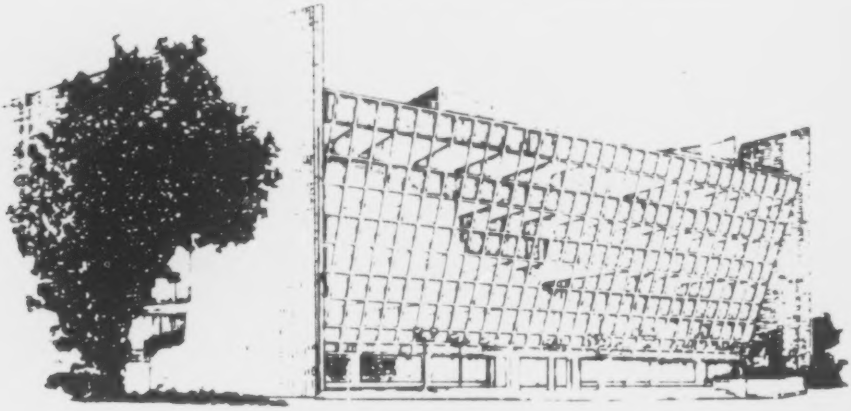
Thank you.

Senator CRANSTON. Thank you very much.

[The complete prepared statement of Dale Stuard follows:]

Statement of the NATIONAL ASSOCIATION OF HOME BUILDERS before the

Committee	JOINT SENATE-HOUSE SUBCOMMITTEES ON HOUSING
Subject	AFFORDABILITY AND THE FIRST TIME HOMEBUYER
Witness	DALE STUARD, PRESIDENT
Date	APRIL 7, 1988
Place	LOS ANGELES



National Housing Center
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The National Association of Home Builders

The National Association of Home Builders (NAHB) represents more than 150,000 member firms located in every state of the U.S., the District of Columbia and Puerto Rico. The cohesiveness of the organization is maintained through a network of 780 local and 43 state affiliated associations. NAHB members can be found in every type of community across the nation, representing rural and urban interests.

While the association was founded to represent the small home builder, it has expanded through the years to include the diversified builder. Currently the average builder member participates in 2 or more different types of building activities, which include remodeling, commercial and industrial building, and single and multifamily housing.

Housing and the Economy

Housing is one of the key indicators of the health and vitality of the nation's economy and the industry itself is one of the largest contributors to the country's economic system.

The housing industry also plays an important role in the economic stability of many other industries, including real estate, architecture, banking institutions, housing manufacturers and the myriad of housing supply industries. For this reason, the ripple effect of the housing industry on the nation's economy is substantial. In 1987 alone, housing and housing-related industries contributed approximately $228.5 billion to America's economy - which translates to about 5% of the gross national product (GNP). Last year, new housing resulted in an estimated 2.4 million man years of direct employment, with NAHB member firms alone employing 8 million persons. Those same housing starts, numbering 1.617 million, represent a total value of $139.6 billion and a tax contribution to local governments of $1.5 billion.

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

JOINT SENATE-HOUSE SUBCOMMITTEES ON HOUSING

on

AFFORDABILITY AND THE FIRST TIME HOMEBUYER

April 7, 1988

Mr. Chairman, Members of the Senate and House Housing Subcommittees, my name is Dale Stuard. I am from Newport Beach and currently serve as President of the National Association of Home Builders (NAHB).

On behalf of the more than 150,000 members of NAHB, I am pleased to be here and believe it is indeed appropriate that a hearing which, in part, focuses on housing affordability and the first time homebuyer takes place in Southern California. As we know all too well, affordable housing for the young, and often first-time, homebuyer is a continuing challenge. But, thanks to your collective efforts to enact the Housing and Community Development Act of 1987 and thereby begin to return housing to the national agenda, it is a challenge made somewhat less burdensome. For this, Mr. Chairman, the membership of NAHB and the many homebuyers of this nation are personally grateful.

Mr. Chairman, as we look to housing policy to guide this great nation during the decade of the 1990's, the challenge before us is to follow through on the accomplishments of last year. We should address the nation's long-term housing needs and develop a comprehensive housing policy that will serve as a blueprint for legislative initiatives during the remainder of the century. NAHB represents private entrepreneurs with continuing support for deficit reduction and elimination of unnecessary programs. However, we firmly believe that the federal government must provide a significant share of funding if we are to meet the various housing needs facing us in the decade ahead.

NAHB believes that national housing policy for the remainder of this century should be aimed at the following objectives:

- Maintain and increase homeownership opportunities for both the moderate-income and lower-income households;

- Achieve victory over restraints imposed by regulation, growth restrictions and a general failure in recent decades to provide adequate infrastructure to support continued development of affordable housing;
- Increase the supply of affordable rental housing for low- and moderate-income families;
- Preserve and enhance the existing stock of federally owned and assisted rental housing, while honoring previous commitments to private owners of assisted housing; and
- Create programs targeted to the special needs of the elderly, the handicapped, those in rural areas and the ever increasing number of homeless and near homeless, including the "garage" people of Southern California.

There are no better words to describe the importance of housing than those of Abraham Lincoln: the strength of a nation lies in the homes of its people. Homes — and the sense of community they create — are critically important to the stability of our nation. Homes shelter. Homes nurture. Homes are the cornerstone of our democratic system and our unique way of life. Without homes, families cease to exist. And without families, our nation as we know it will cease to be.

Homes are also the foundation of a strong economy. Each year they provide thousands of jobs in construction and related industries and billions of dollars in state and local taxes. In 1987, housing alone comprised about five percent of the gross national product. Homes are also a source of financial security — in essence, a live-in savings account —for millions of families, many of whom have no other investments. More than $3 trillion in equity can be tapped by home owners to provide a backstop to Social Security, a secure retirement or college educations for their children.

America's Housing Affordability Crisis

Despite housing's importance, we are facing a grave housing affordability crisis. Following years of unparalleled success in improving the quality and affordability of housing and turning a nation of tenants into a nation of home owners, the United States is now losing ground in its effort to ensure a "decent home in a suitable living environment for every American family."

The dimensions of the current housing situation are well documented in reports released last month by the Joint Center for Housing Studies of Harvard University and the National Housing Task Force. These reports paint a picture of a country divided, "increasingly becoming a nation of haves and have-nots" according to the Joint Center Study. On one side, most Americans live in the best housing on earth; on the other side, a smaller but growing number of Americans are unable to secure decent, affordable housing.

Today's housing problems touch a wide range of Americans, ranging from a young couple unable to qualify for a starter home, to a low-income family living in substandard housing or paying a disproportionate share of its income for rent, to a lower-income family with all but the wage earner on the streets by day, all sleeping in a rented garage with no facilities by the night, to a homeless mother with two young children who spend the night in the back of a pickup truck.

The alarming facts on the current housing situation, as documented in the recent Joint Center Study conducted by the Joint Center for Housing Studies, are as follows: (SEE TABLES I to IV).

- The homeownership rate in the United States has fallen from a peak of 65.6 percent in 1980 to 64 percent in 1987. Had the 1980 rate been maintained, 2 million additional households would own their homes today.
- The decline in homeownership has been most pronounced among young households. The homeownership rate for households in the 25-29 age group fell from 43.3 percent in 1980 to 35.9 percent in 1987. For households in the 30-34 age group, the rate declined from 61.1 percent to 53.2 percent; and for 35-39 year olds, the rate fell from 70.8 percent to 63.8 percent.
- Although out-of-pocket homeownership costs peaked in 1982 when mortgage rates were at record highs, the after-tax cost of homeownership today still remains well above the levels of the late 1960s and early 1970s. Nationwide, the annual after-tax cost of owning a typical starter home was $7,449 in 1987, 32.4 percent of the average annual income of potential first-time buyers aged 25-29. This was about 50 percent higher than the share of income required in the late 1960s and early 1970s to purchase a comparable home.
- While the quality of America's housing stock has improved dramatically over the past 40 years, 4.5 million owners and 5 million renters still live in substandard housing. Inadequate housing is more prevalent in inner cities and outlying rural areas, places with high concentrations of low-income households. One in four young single-parent renter households with children lives in inadequate housing.
- Many markets in America confront a critical shortage of low-cost rental housing, despite rising rental vacancy rates in recent years. While the number of vacant rental units rose from 1.54 million 1981 to 2.66 million in 1986, 90 percent of the increase in vacancies consisted of units renting for more than $300 a month, well beyond the means of most low-income households. Meanwhile, the total number of units renting for less than $300 a month has fallen sharply.
- An estimated 16 million renter households pay more than 30 percent of their income for rent. Since 1981, gross rents for a representative rental unit have increased 14 percent faster than prices generally, reaching a median level of $364 in 1987. Inflation-adjusted rents today are at their highest level in two decades.
- The rising rent burden has been particularly onerous for single-parent families, which have seen their rents increase from 34.9 percent of their incomes in 1974 to 58.4 percent in 1987.
- Only 28 percent of renter households with incomes at or below the poverty line live in federally assisted housing units. This suggests that 5.4 million households are left to compete for the dwindling supply of low-cost rental housing available in the private market.

- The shortage of low-cost housing and the rising rent burden, particularly among young, single-parent families, have contributed to the rising incidence of homelessness in the United States.
- The problems of declining homeownership opportunities, shortages of low-cost rental housing, increasing rent burdens and a growing homeless population are all interrelated. Priced out of the ownership market, moderate-income households, that years ago would have been able to purchase a starter home, now are competing with lower-income households for a declining supply of low-cost rental housing. Those at the lowest end of the income scale are seeing their housing options evaporate and, in many cases,are only one financial setback away from being added to the homeless population.

Cutbacks in federal support of housing actually have contributed to the housing problems we see today:

- Total budget authority for the Department of Housing and Urban Development has been reduced from $37.99 billion in 1978 to $15.41 billion in 1988 while the overall federal budget has more than doubled over this timeframe.
- Housing's share of the federal budget has diminished, with HUD budget authority representing 7.4 percent in 1978 but only 1.3 percent in 1988.
- Numerous housing related programs have been greatly reduced or eliminated entirely, including the Section 8 programs for new construction and substantial rehabilitation. In addition, general revenue sharing which often provided federal funding for infrastructure activities, has been eliminated.

Homeownership

The decline in the homeownership rate reflects many factors. The most influential single factor has been high "real" interest rates. In previous periods when inflation has been below 4%, home mortgage rates for fixed rate loans have been below 8%. Even though nominal interest rates have declined over the past seven years, real interest rates are still quite high by historical standards. Further interest rate reductions will depend to a large extent on serious, long-term efforts to cut the Federal deficit, and that must remain a top priority.

High monthly mortgage payments, due to high interest rates and high home prices, have been a strong deterrent to homeownership for young families. Increased downpayment requirements have also become a serious obstacle. Increased up-front costs, increased home prices, restrictions on the FHA and VA programs, and changes in mortgage underwriting standards have all contributed to the downpayment problem. The FHA mortgage insurance and VA loan guarantee programs historically have played a key role in making homeownership affordable to many American families. These programs lower both interest costs and the amount of cash that buyers must produce at the time of home purchase. These vital programs have not only served critical needs directly, but in the past have been a source of innovations that later were adopted in the conventional mortgage market.

In recent years, however, there have been a series of proposals aimed at restricting the FHA and VA programs. While Congress has rejected most of those proposals, we feel it is important to reiterate several important points.

- The primary FHA insurance program is a self-supporting mutual insurance arrangement in which premiums paid by relatively low-risk borrowers help provide the funds to insure against defaults by higher-risk borrowers. Proposals to further restrict eligibility, such as setting income restrictions, would endanger the actuarial soundness of the insurance program. Furthermore, the credit ceilings of FHA and the GNMA mortgage-backed securities program should not be reduced in the event of across-the-board cuts in the budget to meet Gramm-Rudman-Hollings deficit targets. Cuts in these program activity levels do not contribute to deficit reduction, and they should be exempted from the sequestrable categories.

- The VA program is an entitlement provided in recognition of national service. It was never intended to be self-supporting, but it has been a cost-effective way of providing a reward to those who have served the nation and it has eased the transition of veterans into civilian society.

- The development of alternative mortgage instruments, particularly adjustable rate mortgage (ARM) loans, has played an important role in keeping housing credit available and affordable during periods of high and volatile interest rates. Restrictions on the terms and availability of adjustable-rate FHA-insured mortgages, and the absence of adjustable-rate VA-guaranteed loans, have detracted from the value of those programs. These restrictions are in stark contrast with the history of FHA and VA, which have traditionally been leaders in innovative techniques.

Despite the recent increase in the maximum mortgage amount for FHA loans in high-cost areas, the FHA loan limits are not nearly high enough to finance purchase of a median-price home in many areas. This is true particularly here in California. Instead of imposing a nationwide cap on FHA insured loan, the maximum loan size in each area should be based simply on the median price in that area. This would provide more equitable access to FHA financing for our citizens.

The FHA insurance and VA guarantee programs represent only one element of Federal support for the housing finance system. The Farmers Home Administration provides low-rate financing for low-and moderate-income housing in areas that are not adequately served by private lenders; this program has successfully contributed to the realization of the American Dream and ought to be preserved. In addition, Federally related enterprises which operate in the secondary mortgage market, along with a system of federally insured thrift institutions committed to housing finance, have ensured the availability of mortgage finance for home buyers at reasonable rates.

The Government National Mortgage Association (GNMA) should continue to guaranty mortgage-backed securities that facilitate the flow of capital from the financial markets to home buyers using federally insured mortgages. GNMA should also experiment with innovations in mortgage securities and participate in new approaches to financing rental housing. The Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association should continue to provide secondary markets for mortgage loans and to act as innovators in the development of new mortgage instruments and mortgage-backed securities involving conventional loans. In addition, these entities should stress their traditional leadership role in providing affordable housing credit through the purchase of home loans with low downpayments and reasonable underwriting standards.

Tax-exempt state and local mortgage revenue bonds (MRBs) have provided low-cost funds for home mortgage loans for moderate-income first-time home buyers who would otherwise have found it difficult or impossible to buy homes. Tax-exempt bond authority for MRBs should be extended before the December 31, 1988 sunset date. Consideration also should be given to setting separate MRB volume limits based on housing demand, rather than placing MRBs under a cap based on state population.

To address the down payment problem, it is necessary to reduce not only the up-front cost of buying a home but also to facilitate the accumulation of the necessary amount of funds by prospective home buyers. Several low-cost measures could help to achieve those objectives, including:

- Home purchasers should be permitted to invest funds from their Individual Retirement Accounts (IRAs), Keogh, and 401(K) retirement plans in their homes as down payments. These investments should not be considered "withdrawals" from those funds, but simply alternatives to investment in CD's, mutual funds, or other vehicles now classified as eligible investments. Additionally, Congress should initiate tax exempt Individual Housing Accounts (IHAs), to provide a specific incentive for young families to save early for downpayments and closing costs.
- Since 1974, the minimum down payment for FHA loans on homes valued in excess of $50,000 has been 3% on the first $25,000 and 5% on additional amounts. Median new home prices are now approximately three times as high as in 1974. In light of the higher levels of home prices today, the portion eligible for the 3% downpayment should be raised to at least $50,000.

Low-Income Homeownership

Homeownership is desirable and appropriate for many households that fall into the low-income (below 80% of median) category. For ownership to be feasible for such households however, assistance may be required beyond that provided by current housing finance programs (including tax-exempt financing) and the proposed tax-free savings plans. The successful Farmers Home Administration Section 502 program has demonstrated the feasibility of deeper low-income homeownership assistance in rural areas, and a similar program for urban areas should be considered.

In another effort to increase low-income homeownership, NAHB is working today to develop a nationwide demonstration of the newly authorized Nehemiah Program. We urge Congress to appropriate the authorized funds. Once these funds are appropriated, we envision the construction or rehabilitation of up to 2,500 single family homes for low-income, first-time homebuyer households.

Our Nehemiah model identifies the components that are needed to create an effective and energetic housing production partnership. Building upon the foundation laid by Congress of targeting federal funding to leverage state and local initiatives, we would construct a mechanism to harness the private sector expertise and energy which will be needed if a meaningful number of low-income, first time homebuyers are to be assisted.

In the Chicago area today, a group of our members is working with a non-profit entity on Chicago's west side to construct 50 homes on land donated by the city. The construction employs local residents, and the homes will be affordable to young families in a neighborhood redevelopment area.

Across the country, individual homebuilders, and often our local homebuilder associations, are involved in similar efforts. We are confident this kind of a partnership can work, and we urge Congress to move quickly to fund the Nehemiah Program.

Regulations and Growth Constraints

Part of the affordability problem is due to high home prices. The fact that these high prices are often the result of restrictive land use regulations, high impact fees, permit processing delays, or archaic development standards has been extensively documented through demonstrations such as the Federally sponsored Joint Venture for Affordable Housing. Several state governments have taken the lead in recognizing the connection between local regulations and affordable housing. They have required localities to reform regulations and take steps to accommodate more affordable housing.

In many areas, production of additional housing is constrained by inadequate infrastructure. Neglect of the need for roads, schools, parks, water supplies, sewage capacity, and other public facilities has caused communities to restrict growth.

Because of restrictions on taxing authority, or constraints on the issuance of municipal debt, many communities have turned to the use of impact fees to finance off-site infrastructure. Some communities use impact fees simply as a new source of income. Such fees are typically levied on a per-house or a per-square-foot basis, rather than on an ability-to-pay basis, and often place an unfair burden on the new homebuyer. They also place a disproportionate burden on lower-income households. Moreover, because they are reflected in home prices, they place an additional hurdle in the path to homeownership. (SEE APPENDIX I).

Local government restrictions are not the only ones that have contributed to this problem. Some of the restrictions and costs emanate from the Federal government. For example, application of Davis-Bacon requirements to residential construction has the perverse effect of making it more expensive (per square foot) to build federally-assisted housing for low-income families than to build unassisted rental housing for higher-income families. Certainly, the Federal government should be part of the solution and not part of the problem.

While the elimination of regulatory barriers to affordable housing is largely a responsibility of state and local governments, there are a number of Federal actions that ought to be taken. These include:

- The Joint Venture for Affordable Housing ought to be extended, with greater efforts to educate local officials.

- Restrictions on the use of tax-exempt bonds to finance infrastructure should be removed.

- A national infrastructure bank should be created to provide long-term, low-cost financing for capital investment in new facilities.
- Additional grants for water and sewer requirements should be provided.
- The impact on housing affordability should be considered in the formulation of regulations by Federal agencies such as the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA).
- Federally-funded new construction and rehabilitation of residential properties should be exempt from costly Davis-Bacon requirements.
- The Federal government should provide incentives and penalties in the allocation of funds to discourage practices that exclude or hamper the construction of affordable housing.

Rental Production

Some analysts and policy makers have taken the position that the problem of affordability for low-income renters is simply a problem of inadequate income rather than a problem of inadequate supply of decent, affordable rental housing. While that may be true in some localities, there are shortages of low-cost housing in many areas. The evidence of those shortages is documented in several recent studies, but it is most graphically demonstrated by the widespread and growing incidence of homelessness.

To address adequately the problems of housing affordability for low- and moderate- income households, an increased level of new production of low-cost housing must occur. Demand side subsidies alone cannot address these shortages and, in the absence of new production, such subsidies simply put pressure on already high rental costs. The federal government must provide a significant share of the dollars, and create the framework within which new production of rental housing for low-income households can occur.

That framework must recognize and extend the ingenuity and the commitment of state and local government. As importantly, as in our Nehemiah model, the expertise and capacity of the private sector must be harnessed as the engine that can generate an effective level of production to meet the needs of low- and moderate-income families, as well as households with special needs.

A key element of Federal support for low-income housing production has been tax incentives. The Tax Reform Act of 1986 largely eliminated the previous tax incentives and substituted a low-income housing tax credit. The tax credit, however, has proven to be cumbersome and inadequate. Congress should correct deficiencies in the design of the tax credit and provide additional tax incentives for the production and maintenance of low-income rental housing. These incentives should include exempting low-income tax credit projects from the passive loss rules and the alternative minimum tax as well as permitting the tax credits be sold to investors.

We recognize that federal resources are limited. For that reason, new funding for housing must be employed in a manner which will ensure the maximum production of new or rehabilitated affordable rental units. To do so will require an entrepreneurial approach at the federal level, to rapidly move funds to the most effective state and local initiatives, and to extend the impact of new funding through linkages with existing programs and resources.

The Existing Assisted Stock

The already-inadequate supply of affordable rental housing for low-income households is threatened with further depletion as a result of the expiration of Federal commitments to preserve privately-owned units for low-income use. Federal project-based rental subsidy contracts under the "loan management set-aside" program should be renewed to avoid displacement of tenants and/or mortgage default by the owners. Long-term rehabilitation needs must also be addressed to prevent additional loss and abandonment of this vital government-assisted asset. In the case of low-rate mortgages with prepayment options under the Section 221(d)(3) BMIR and 236 programs and the Farmers Home Section 515 program, the government should provide incentives to property owners to extend their commitments rather than prepay their loans and withdraw from the programs.

An alternative approach to the prepayment risk issue, exemplified by the current moratorium on prepayment, is simply to deny or restrict prepayment rights. Not only does such an approach raise legal and moral questions, it has a severe chilling effect on any future participation by private investors in Federally-assisted programs to provide low-income housing. NAHB continues to work with other groups on this issue. We are reviewing the HUD Management Agents' Report and we look forward to the release of the Reuss-Hills report -- both of which specifically address this important issue.

Special Needs

Certain segments of our population have special housing needs that require special solutions. The elderly and handicapped, low-income families in rural areas, and the homeless must be singled out for attention.

While the average income of elderly Americans has increased markedly over the past few decades, many elderly people still face financial or physical problems with respect to their housing. Mr. Chairman, most of the growth in the over-65 population in the years ahead will be among the group over 80 years old. This suggests an increasing need for congregate care facilities and other forms of housing that address the physical needs of the aged.

Housing for the handicapped also addresses a special need. The handicapped population includes over 35 million people, young and old. We recognize these needs and are actively supporting more barrier-free design in new construction by working with various groups representing the handicapped to achieve the goal of accessible housing for all.

Rural areas continue to bear a disproportionate share of the nation's substandard housing. This is due, in part, to a rural housing finance system that is less well developed than in urban markets. Current programs administered by the Farmers Home Administration should be continued without further cuts to provide special access to low-cost mortgage funds in rural areas for both single and multifamily housing. New initiatives should be developed as well, in order to broaden the sources of credit in these areas through such means as privately-funded, but federally-guaranteed mortgages, as provided in the 1987 Housing Act. These efforts, if implemented, could facilitate the development of private lending without major expenditures by the government.

The needs of the homeless deserve particular attention. Although many homeless people have problems that extend beyond a lack of housing, such circumstances do not negate, but rather accentuate, the necessity of a decent home. The diverse groups within the homeless population require a variety of housing, including safe, adequate units for short-term occupancy by homeless families, residential hotels for homeless individuals, and facilities that provide social services as well as housing services. NAHB plans to sponsor a major conference on the homeless this fall in an attempt to further identify the dimensions of the problem as well as the appropriate range of solutions.

The Report of the National Housing Task Force

We congratulate the National Housing Task Force for its hard work and creativity in addressing the housing needs of the country. Their report argues persuasively for a heightened priority for housing, as homeownership declines and affordability reaches a crisis for many low- and moderate-income households. We endorse their call for policies and programs that will "provide the opportunity for decent and affordable housing for all Americans."

Some of the recommendations of their Report have already been covered above. These include (1) the need for help in achieving homeownership through access to IRA funds and through some changes in FHA programs, (2) fostering the reduction in excessive local regulations of land and housing development through efforts such as the Joint Venture for Affordable Housing, (3) the role of the federal Government in investing in public-private partnerships, and (4) the need for incentives and renewed support to keep the existing stock of federally assisted housing financially viable and available for low-income households.

The Task Force has gone further to recommend a range of additional policies and programs as part of a new national housing policy. Many of these are undoubtedly worth considering. For example, proposals such as benevolent loan funds, community development banks, and the housing activities of local non-profits have potential. However, we see that potential being relatively limited. Most new production will have to come from a partnership between government and private entrepreneurs.

The Housing Opportunity Program (HOP) recommended by the Task Force would provide grants totalling $3 billion annually to states and localities using two different allocation procedures. We are concerned that these formula grant entitlement programs will be spread too thinly. Unless major additional funding is found, small-and moderate-sized localities will not receive the funds needed to move ahead with significant projects. It may be preferable to allocate the funds through a national-level competition of public-private partnerships, a procedure that the Task Force recommends only for the distribution of funds that remain when states fail to participate.

Overall, NAHB is very pleased that the Task Force has focused attention on the need for action and on the potential for innovative, as well as time-tested, approaches to meeting the housing challenge.

Conclusion

It has become increasingly clear that the challenges of today and the decade ahead can be met only by reinvigorating our national commitment to housing. We must reduce our budget deficits to pave the way for lower interest rates, continue to advance new ways to finance housing in an ever changing environment, remove inequitable and wasteful development fees, provide tax incentives that reduce the cost of homeownership and encourage the construction of affordable rental housing, invest in our infrastructure and, within budget limitations, devise new support programs to ensure that the low-income and those with special needs — including the homeless — can obtain housing that is both decent and sanitary as well as affordable. By restoring housing as a top national priority, we can, and will, ensure that housing truly will be the American promise.

Thank you for the opportunity to appear before this joint committee hearing. We look forward with enthusiasm, Mr Chairman, to continuing this open dialogue and working with you, members of the Senate and House subcommittees on housing, and your very professional and dedicated staffs. I will be happy to respond to any questions you may have.

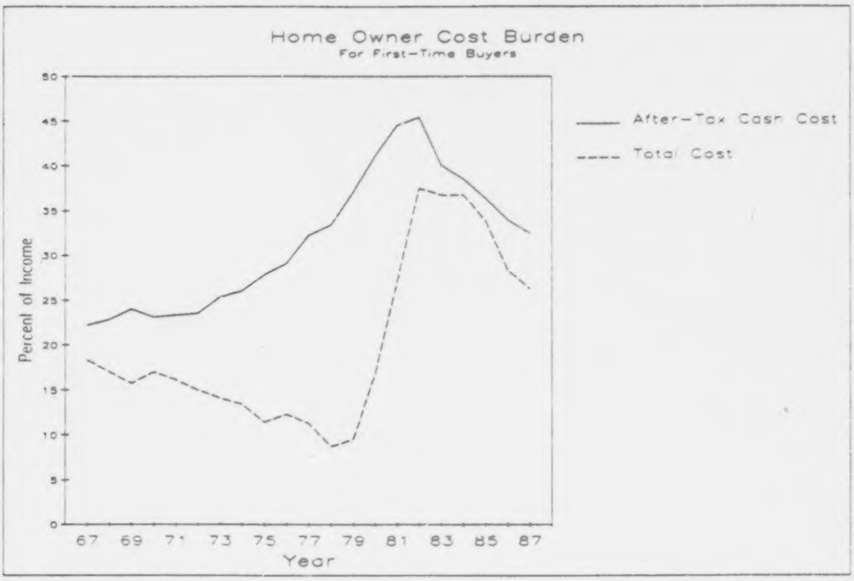
TABLE I

HOMEOWNERSHIP RATES BY REGION AND AGE
(Percent Home Owner)

Region	1973	1976	1980	1983	1987
Northeast	59.2%	59.8%	60.7%	61.4%	61.4%
Midwest	69.1	69.5	70.3	70.0	67.1
South	66.5	66.4	68.3	67.1	66.9
West	60.6	61.2	60.5	58.7	57.9
Age					
Under 25	23.4%	21.0%	21.3%	19.3%	16.1%
25-29	43.6	43.2	43.3	38.2	35.9
30-34	60.2	62.4	61.1	55.7	53.2
35-39	68.5	69.0	70.8	65.8	63.8
40-44	72.9	73.9	74.2	74.2	70.6
45-54	76.1	77.4	77.7	77.1	75.8
55-64	75.7	77.2	79.3	80.5	80.8
65-74	71.3	72.7	75.2	76.9	78.1
75+	67.1	67.2	67.8	71.6	70.7
Total	64.4	64.8	65.6	64.9	64.0

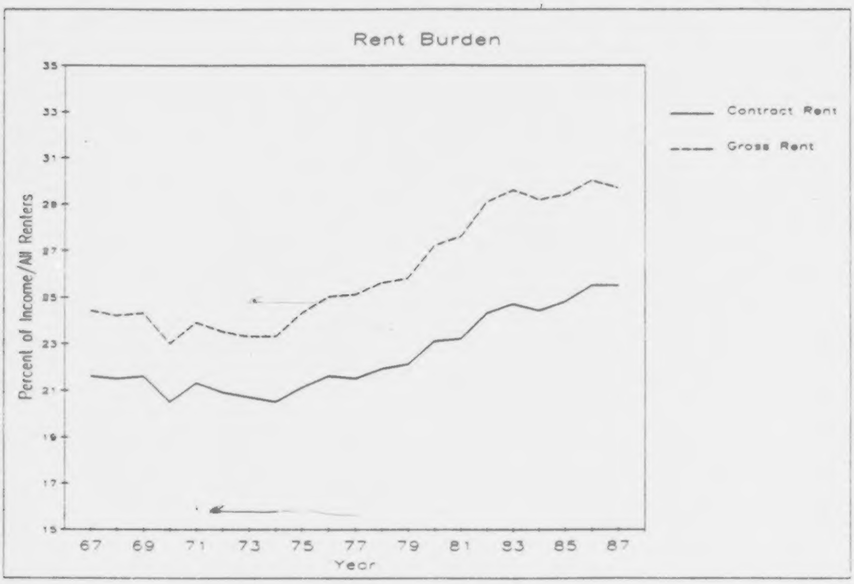
Source: 1973 to 1980 from Annual Housing Survey
1983 to 1987 from Current Population Survey

TABLE II



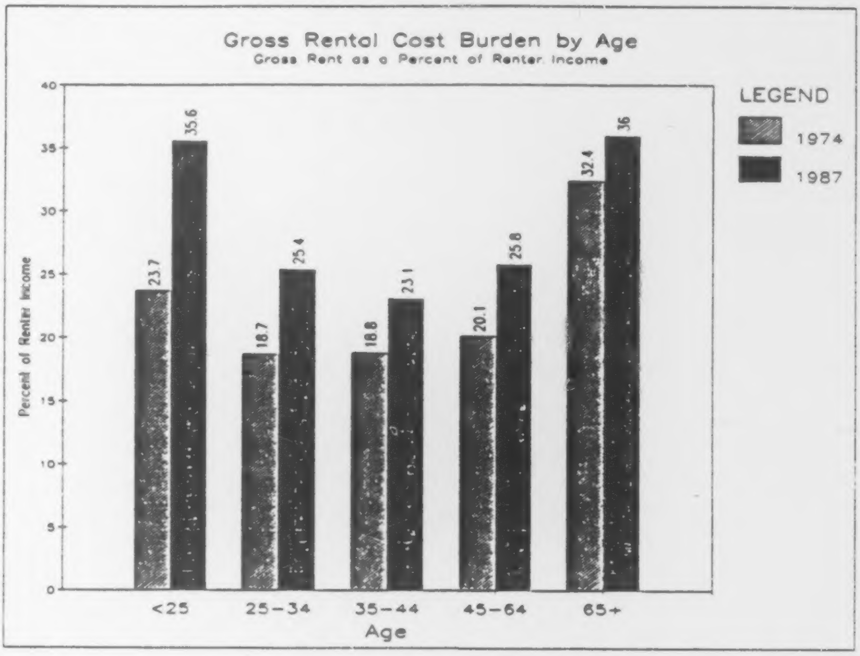
- **Home owner cost burden** is after-tax cash cost or total cost as a percent of annual income of potential first-time home buyers as proxied by the median family income of married couple renters aged 25-29. **After-tax cash cost** equals mortgage payments and other costs of homeownership (property tax, insurance, fuel and utilities and maintenance) less tax savings of homeownership. **Total cost** equals after-tax cost plus opportunity cost of downpayment and amortization of fees and closing costs less expected equity buildup.

TABLE III



* **Contract rent** equals payments to property owner services. **Gross rent** equals contract rent plus fuel and utilities, property taxes and insurance paid by the tenant. **Rent burden** is annual contract or gross rent as a percent of median income of renter households.

TABLE IV


Gross Rental Cost Burden by Age
Gross Rent as a Percent of Renter Income
Percent of Renter Income
0
5
10
15
20
25
30
35
40
23.7
35.6
18.7
25.4
18.8
23.1
20.1
25.8
32.4
36
<25
25-34
35-44
45-64
65+
Age
LEGEND
1974
1987

Infrastructure

Deterioration of America's infrastructure has major implications for the nation's economic vitality, competitive position in international markets and standard of living. The housing needs of increasing numbers of urban, suburban and rural households cannot be fully met without the expansion, repair and replacement of highways, bridges and sewer and water systems. The Council of State Planning Agencies estimates it will cost $3 trillion to provide for adequate infrastructure in the 1980s. During a period of declining federal assistance for major capital improvement projects, especially waste water treatment facilities, paying for the infrastructure has become a major political issue.

Several factors have prevented state and local governments from taking up the slack left by the federal government in the financing of infrastructure projects. Counties and municipalities have failed to plan adequately for infrastructure financing and development through capital improvement programs or other accepted methods. States have been constrained by statutory and constitutional limits on the public debt as well as increasing competition in the tax-exempt bond market. Local governments, confronted by a growing unwillingness among taxpayers to pay higher taxes to finance extended services to new residents, have imposed excessively stringent standards and regulations that inflate infrastructure costs, overstate infrastructure needs and discourage the use of efficient new building technologies.

National estimates of the need for infrastructure can be misleading because there is neither a universal definition of infrastructure nor a common yardstick for measuring need at different government levels. But the Joint Economic Committee of the U.S. Congress has predicted a shortfall of $400 billion in financing the bridges, highways, sewer and water systems and transportation facilities that will be needed during the balance of the century. Based on case studies in 23 states, the committee concluded that the nation can still meet its responsibilities "by setting priorities, by defining the problem in realistic terms and by utilizing the resources of federal, state and local governments."

Some states have established infrastructure banks that provide localities with loans from a revolving fund to pay for infrastructure development. Planning ahead to provide the services that will result from expected levels of residential development would expedite the development process and reduce construction costs accordingly. When residential infrastructure standards exceed reasonable performance levels, communities should amend development codes to encourage the use of new cost-saving technologies.

A number of communities circumvent public opposition to tax increases by using a variety of public financing mechanisms, including revenue bonds, industrial development bonds, tax increment financing and privatization. Federal legislation introduced by Rep. James J. Howard, chairman of the House Committee on Public Works and Transportation, would establish a National Infrastructure Fund, a 30-year revolving loan program to finance specific state and local capital improvements.

America's looming infrastructure crisis has already created problems for builders in areas where infrastructure expansion has not kept pace with the demand for residential growth. Development plans are often thwarted by a lack of available sewer, water and road capacity. Even where existing capacity meets or exceeds demand, developers are often required to pay up-front for such offsite improvements as schools, parks, libraries, fire stations and segments of interstate highways. Public sector costs transferred to private developers are ultimately passed along to consumers, often in the higher selling price of a new home.

During a period of scarce financial resources for infrastructure, many jurisdictions will have to choose between repairing or rebuilding existing highways and bridges or adding to sewer and water lines for new housing developments. Although the latter alternative is obviously more appealing to builders, it is important to recognize that no single infrastructure policy will meet the needs of the nation's diverse regions and localities. Confronted with hard choices, public decisionmakers might grant localities the latitude to determine their own infrastructure investment priorities, making it clear that any funding mechanism will have cost implications for taxpayers and government.

The Infrastructure Crisis and the Building Industry

Traditionally, governments at every level assume responsibility for planning and developing public works projects. The federal government's role dates back to the early years of the country, when it financed roads and canals. In the modern era, the federal government has supported the development of such major projects as the interstate highway system. The states have funded state roads and water impoundments. Localities have developed urban systems, including arterial and collector roads, sewer and water systems and schools. Until the mid-twentieth century, the cities themselves actually platted urban land and built needed facilities.

Traditionally, the extension of infrastructure was financed from a community's general revenues. Sound residential development was perceived as beneficial to the entire community, stimulating job creation and housing opportunities and generating income and tax revenues of all kinds.

More recently, however, many such benefits have been overlooked and the costs of infrastructure development have been transferred to the private sector, often through impact fees and other devices that in effect require developers and builders to provide specific services and facilities as a prerequisite for project approval. Impact fees are levied against new developments and collected when a building permit is issued. They constitute direct revenues used to supplement regular tax collections and debt issues.

It is difficult to determine the average cost of impact fees nationwide, but the following examples illustrate the wide range of these capital charges.

- A regional sewer system district in Maryland levies sewer hookup charges of $1,560 for a single-family dwelling unit.
- The city of Bono, Arkansas, assesses a sewer connection fee of $500 and a water connection fee of $220 per unit.
- Oxnard, California, imposed a sewer fee of $5,000 and a water fee of $1,065 per unit before a California court struck them down.
- The freeway assessment program of Orange County, California, charges $136,000 to $155,000 for a 100-unit development of single-family homes.
- Bernards Township, New Jersey, has enacted an impact fee ordinance for offsite traffic and drainage improvements, including municipal roads, intersections, railway stations, and bridges, based on a pro rata calculation.

Raising short-term capital for up-front infrastructure charges is costly for developers. Capital can be difficult to raise. Developers must borrow at significantly higher rates in the private capital markets than local governments can in the tax-exempt markets. The time required to obtain funds and government approvals further increases development costs by prolonging the developer's carrying costs for taxes, insurance and debt service.

Up-front infrastructure charges clearly contribute to the escalating sales prices of new homes. For the home buyer, they represent an unfair share of community expenses rather than a bigger or better home. At a time when the cost of a new home stands on the edge of affordability for the average American household, up-front transfers can be just enough to push prices beyond the means of large numbers of prospective home buyers.

Mortgage financing magnifies the real cost of all such up-front charges incorporated in the selling price of a new home. For example, a $2,376 increase in a local school fee increases carrying costs by more than $13,000 over the 30-year amortization of a 12.5 percent, $64,530 mortgage.

The allocation of up-front infrastructure costs between newcomers and existing residents raises the issue of fairness for developers and consumers alike. In the past, developers routinely provided roads and utilities within the subdivision, but today they are also required to finance a wide range of offsite facilities. Public decision-makers contend that those who generate the demand for new facilities should bear the associated costs. Developers, on the other hand, hold that local government should fund onsite and offsite facilities that benefit the entire community. In a number of instances, disputes over the equity issue have been taken to court, where decisions have varied from one locality to another.

The changing political and fiscal climate of the past decade has undermined traditional methods of providing and financing infrastructure and has jeopardized continued production of affordable housing.

While the infrastructure crisis requires action at all levels of government, local government—the traditional service provider—cannot be expected to provide the range of public services and facilities in support of housing as willingly as it has in the past. Housing demand, however, cannot be met without the necessary infrastructure. New applications of traditional financing methods and the development of innovative funding mechanisms must lead the way to the continued development of public works.

Infrastructure Financing Techniques

For several decades, public decisionmakers have relied on a variety of debt instruments, most notably general obligation bonds, to finance capital expansion. Increased service needs and fiscal constraints, however, now require a creative approach to funding public works projects. A range of financing mechanisms, from the traditional to the innovative, is available for the development of infrastructure.

Public Debt Financing

General Obligation (GO) bonds are a traditional form of long-term debt issued by the government to finance large-scale capital improvements for the public good. GO bonds are pledged against the full taxing power of the issuing jurisdiction—a state, county, municipality or statutory authority. Accordingly, financial analysts have generally considered GO bonds a sound risk for investors.

General obligation debt is also attractive to investors because it is tax-exempt. Holders of government bonds are not required to pay federal income tax on earned interest income; a number of state and local jurisdictions also exempt earnings from taxation.

General obligation debt is regulated primarily by state statutory and constitutional provisions. State regulation of bonded indebtedness generally places two checks on debt issuance—limitations on the dollar volume of bonds floated and voter approval of the debt. Voter approval is required because taxpayers bear the burden of retiring the bond and are liable to additional levies to meet the bond repayment schedule. Taxpayers are often reluctant to endorse bond issues, which requires public officials to find other financing mechanisms.

Revenue Bonds are pledged against the flow of revenue from user fees that are charged for a variety of public services. Like GO bonds, revenue bonds are tax-ex-

Development Fees Add to Affordability Crisis

Short-term costs of rising fees	Cost with $1100 fee	Cost with $3476 fee	Additional cost
Purchase price	$ 68 400	$ 71 700	$ 3 300
Down payment at 10%	6 840	7 170	330
Escrow fee title policy recording at 1%	684	717	33
Buyer's loan fee at 1.5%	923	968	45
Total cash to close	$ 8 447	$ 8 855	$ 408
Loan balance	$ 61 560	$ 64 530	$ 2 970
Monthly payment at 12.5%	657	689	32
Year 1 property tax at 1.1%	752	789	37
Insurance at $28 $100 on 80% price	153	161	8
Total costs of rising fees			
Cash to close	$ 8 447	$ 8 855	$ 408
Total 360 payments	236 520	247 933	11 413
Property tax paid in 30 years at 2% escalation	30 523	31 996	1 473
Insurance paid in 30 years at 6% escalation	12 113	12 697	584
Increase in total cost	$287 603	$301 481	$ 13 878

What looks like a modest $2 376 increase in local school district development fees on new houses raises significantly the cost of purchasing a new home. It adds $3 300 to the purchase price, $408 to the amount of cash needed to close on the home, another $77 to the monthly mortgage payment, and an additional $13 470 over the life of the 30-year term of the mortgage. The total cost of the increased fee is $13 878.

empt securities. However, they are not an obligation of the issuing jurisdiction and do not add to the issuer's bonded indebtedness. This provides public officials a means of circumventing state-mandated debt limits and taxpayer resistance to increased debt.

In the current economic and political climate, it is not surprising that revenue bond issues are growing as a share of the dollar volume of all municipal issues. They grew from approximately 29 percent in 1970 to 70 percent in 1980. This dramatic growth has also been enhanced by a proliferation of limited-purpose statutory authorities empowered to float revenue bond debt.

Industrial Development Bonds (IDBs) are another commonly issued form of tax-exempt debt. IDBs are typically floated to support municipally sponsored economic development projects or private corporate ventures undertaken for the public benefit. Convention centers, sports facilities, residential projects and port facilities are frequently financed with IDBs. IDB debt is often considered a direct debt of the issuing jurisdiction, particularly if it is pledged against the taxing power of the jurisdiction (as in GO bonds), rather than against a stream of anticipated revenues (as in revenue bonds).

Recent concern over lost federal tax revenue and corporate abuse of IDBs in major retail expansions has led to restrictions on their use. The Deficit Reduction Act of 1984 placed a $150 per capita or $200 million per state volume cap on industrial development bond issues. Congress made some exemptions, but the cap, which applies to municipally owned sewage and solid waste facilities, energy facilities and water supply and distribution systems, could slow economic development activities.

Financing Arrangements

Unlike the financing mechanisms described above, which are used frequently by local government, the following financing arrangements are growing in importance.

Tax Increment Financing (TIF), also called tax allocation financing, uses the expected gains or incremental property tax revenues generated by new development to fund the public improvements necessitated by that development. TIF assumes that new development increases property values and municipal property tax revenues in the developed area.

Local government authority to implement TIF derives from state enabling legislation. To initiate a TIF program, the appropriate local government agency establishes a base for the proposed development area's current tax base and then freezes the tax at the base line. The administering body finances needed improvements out of its own funds or through tax-exempt bonds. The rising property values and property taxes resulting from new development push revenues above the frozen base line. This surplus revenue is collected by the local agency and used to replenish its funds or to retire the bond. In the case of a bond issue, the tax is reassessed upon repayment of the security to reflect the increased value of new development.

The Special Assessment is imposed on property owners who benefit from a specific public improvement within a limited geographic area called a special assessment district. Special assessment collections are applied to retire bonds that finance construction or repair of streets; construction of sewer mains, laterals and storm sewers; installation of street lighting; and other improvements. Because the assessment is collected on a pay-as-you-go basis, it is not factored into the selling price of a new home. Local government authority to impose special assessments derives from state enabling legislation, state general grant of taxing authority or home rule powers.

Special Districts are a form of limited-purpose local government authorized under state enabling legislation to tax, issue debt and provide services such as drainage, street lighting, recreation, water distribution and sewerage treatment within a designated area. Usually created prior to development, special districts pledge collected user fees or taxes against the retirement of debt issued to finance public improvements. Special districts are the most common form of local government in the United States, accounting for nearly 26,000 out of 79,800 local jurisdictions in 1977, an 8.8 percent increase since the previous census in 1972, according to the Census Bureau. Special districts have proliferated recently because they enable local governments to solve growing service needs that often transcend political boundaries. Further, special districts circumvent the debt and tax limits that constrain municipal investment in new services.

Public-Private Financing

Privatization is a relatively new trend in infrastructure financing. Under privatization, a municipality contracts with a for-profit or non-profit corporation or a nearby local government to provide such services as fire and police protection. Services are paid for through general tax revenues or user charges. Contracting can be a more cost-effective way of providing services because, unlike cities that enjoy a monopoly on service delivery, contractors must compete with other service providers in the free marketplace. Privatization can also occur as a more complex public-private partnership involving private sector financing, construction, ownership or operation of facilities traditionally financed, constructed and operated by the public sector.

The consumer, private industry and government are potential beneficiaries of a privatization arrangement. When properly structured, a privatization transaction can open up communications, providing a new private sector investment opportunity and allowing the public sector to reduce user fees. Privatization can enable the government to take advantage of private sector expertise in financing, designing, constructing and operating large-scale facilities. At the same time, depending on the specific arrangement and method of capital formation, the private entity may be able to take advantage of the tax-exempt status of the local government.

Privatized construction is sometimes more efficient because of reduced federal and state regulatory involvement. In addition, certain federal procurement procedures can be ignored. Services can also operate more efficiently when private providers operating multiple facilities achieve economies of scale through sharing resources and purchasing supplies in bulk.

Although privatization remains largely untested, private investment houses, engineering firms and product suppliers regard it as an opportunity for expanding their markets, limiting their tax liability and receiving a fair investment return. In fact, it is not unusual for private concerns to approach local governments with proposals for privatization partnerships. From the perspective of the home building industry, privatization is a potentially important source of financing that may eventually play a vital role in restoring and expanding infrastructure, thus surmounting a major impediment to residential expansion across the country. ■

Source: HOUSING AMERICA -
The Challenges Ahead.
The National Association of
Home Builders, 1985.

Senator **Cranston**. Our next speaker is Susan Jiminez, a teacher. We welcome you.

Let me say that because of our time constraints we're going to put down a card when your 5 minutes are up, in front of each of you.

Susan.

STATEMENT OF SUSAN JIMINEZ, A TEACHER

Ms. **Jiminez**. I'm going to get to the point right away. My husband and I own a home in Moreno Valley. That's in the Riverside County area. The reason we've gone out there is because we cannot afford a home in Orange County or L.A. County. My husband works in Irvine. The homes out there today are going for $185,000. The same homes in Moreno Valley are $90,000 to $100,000.

When we were first married, we lived in an apartment and we tried to save the money. But you can't, because when taxes come you can't write it off because you're not owning property, so therefore you have to pay.

So what we did, we had to move in with my family for 9 months, and that was a big hassle, very much of a strain on our marriage, believe me.

We have our home up for sale now, but even though—from the income we'll get from that, it still will not be enough to move closer to Orange County. My husband drives 1 hour and 15 minutes each way in the morning without traffic. If there's traffic, it's 2 hours each way commuting time, so that's 4 hours total a day commuting. That's a very big hassle on him.

My daughter—I have a 2 year old daughter who is biting her nails, and her pediatrician said it's because of a stress on a 2 year old. That's not the way it should be. If we could afford a home, it wouldn't be so bad.

Now what we're planning on doing is moving in with my mother-in-law. We're going to have to have her sell her home as we sell ours, put our money together so we'll be able to afford a home out there in Orange County.

My husband makes approximately $30,000. He's a printed circuit board designer. He doesn't want to change jobs because he's moving in his company. But what we need is either getting more of the industry out towards that way, since there really isn't any room to build more housing in Orange County. And since people have to have double incomes to afford homes, their children are put in daycares. I work in a preschool daycare center, and children are there 10 hours a day, 11 hours a day. Parents work 8 hours, and then they have to commute an hour each way. That's 10 hours, 50 hours a week in a daycare center. What kind of childhood memories are these kids going to have? This is not the way it should be? They should be able to be home with their parents, at least to spend some time with their parents. These parents come home, pick them up from the daycare, have to give them dinner, go to bed and that's it. They don't have any—have very little time, or else just on the weekends.

They started a group in Moreno Valley called the Moreno Valley Commuters Support Group, and that died out. The reason is because people couldn't get to the meetings because they have to commute. And even though they had the meetings on Saturdays, that's when people want to spend time with their family.

So that's my point, is that we need some—either more affordable housing in Orange County, L.A. County, or bring the industry out there so we can afford homes.

Senator **Cranston**. Thank you, Susan. That's very helpful.

Ms. **Jiminez**. I have statistics of the City of Moreno Valley. I think that will be very helpful.

Senator **Cranston**. That will go in the record.

Ms. **Jiminez**. Oh, also, we have—160,000 cars traveling on our Freeways per day. And that's growing; that number is growing.

Senator **Cranston**. Thank you.

[The following was received for the record.]

Statistics of the City of Moreno Valley

Population

The vast majority of Moreno Valley's growing population is comprised of yound, family oriented households who describe themselves as "younger adults, no children" or as "having children", and almost half of the newer households have relocated here since the 1980 census.[4]

Year	Population	Low End Projection	Mid-range Projection	High End Projection
1980	25,150			
1984	49,702			
1986	65,380			
1990		84,580	89,180	[illegible]
1995		108,680	120,430	[illegible]

As of April 4, 1988 the current population is approximately [illegible].[3]

In 1987 Moreno Valley was the fastest growing city in the country.

Schools

In 1986 there were 16,295 students enrolled in the Moreno Valley Unified School District. As of September 18, 1988 there are 20,477 students enrolled. An increase of more than 4,000 students.[5] Therefore, schools are over crowded and new schools cannot be built until there is enough over crowding, in each school.

Housing

An average home in Orange County, (three bedroom, middle class, approximately ten - 30 years old), are going for $1[illegible],000.[6] In Los Angeles County, the prices are comparable to Orange County.[7]

In Moreno Valley, the homes are averaging $90,000 to 100,000.[6]

Labor Force

Moreno Valley has attracted a fairly young, well educated and stable labor force: Three quarters of the available labor pool have approximately twenty years to devote to employment (assuming retirement at age 65). Further, fully ninety percent of Moreno VAlley resident employees have completed an education, inclusive of a high school diploma, a technical degree or a college diploma. [4]

Administrative	**10%**
Administrative Support	**9%**
Craft	**5%**
Executive	**3%**
Fabricator	**1%**
Laborer	**8%**
Owner/Operator	**2%**
Precision Production	**3%**
Professional	**18%**
Repair	**4%**
Sales	**8%**
Service	**13%**
Technical	**10%**
Other	**6%**

Transportation

160,000 cars travel on the 91 freeway per day. This number is growing.[1]

Therefore Moreno Valley residents have longer commutes (over one hour) than do western Riverside County residents overall.

The lack of a local job base has caused a large percentage of Moreno Valley residents to commute to jobs in other communities.

In conclusion, What Moreno Valley needs is to bring more family supporting jobs that would ecomically and environmentally benefit the city.[8]

Resources

1. Route 91 Coalition Group
2. Press Enterprise Newspaper
3. Moreno Valley News
4. City of Moreno Valley General Plan Program
5. Western Riverside County Survey of Residents Moreno Valley Landscape Muse Consulting. Inc. 1986
6. Coldwell Banker Reltors
7. Century 21 Realtors
8. Melinda Cenley President of Moreno Valley Commuters Support Group
9. Moreno Valley Library
10. KTTV News

Senator CRANSTON. The next speaker is Mr. Willard Gourley.

STATEMENT OF WILLARD GOURLEY, JR., PRESIDENT-ELECT, MORTGAGE BANKERS ASSOCIATION

Mr. GOURLEY. Thank you.

Mr. Chairman, Congresswoman Pelosi and Congressman Dreier, the Mortgage Bankers Association strongly believes that the time has come for us to have a National Housing Policy. We applaud your efforts today and certainly the efforts of the Housing Task Force and its report, "A Decent Place to Live." It's a great report.

We strongly concur with the report's emphasis on the need for Federal presence in the housing market and its findings that the Federal housing programs now in place are a sound foundation on which to build a new commitment to housing programs.

Affordability for potential home owners can be enhanced by addressing the following components. And you've given me a challenge, Mr. Chairman, and I have made all sorts of little notes here to speed this up, so I'll hit three or four points.

One that we are very concerned with is certainly the one that Congressman Dreier mentioned, and that is interest rates. They certainly have a major impact on monthly payments. We believe that critical to this issue is the need for reducing the Federal budget deficit, so we put that as sort of a number one issue.

In the report, we talk about low down payments, and we certainly know that low down payments are needed for first-time home buyers. You cannot tap into the potential equity from the sale of a home. And finally, transaction costs that might be reduced through the streamlining of the mortgage process. We have taken several points from the report that we are—The adjustable rate mortgages have proven to be strong tools in reducing additional interest rates and therefore helping affordability. And the FHA ARM program plays a very important role in this. We recommend that the V.A. also have a loan—an ARM program that the V.A. would guarantee.

We note that the report mentions the—well, two or three things additionally. The FHA program for the first-time home buyers, that the recommendation that FHA down payments be 3 percent of the first $50,000 rather than 3 percent of the first $25,000. That's important for the first-time home buyer.

We strongly oppose any effort to target FHA home ownership insurance programs, such as limiting it to the first-time buyers or to low-income borrowers. Any restructuring that reduces the attractiveness of FHA will inhibit affordability and poses the possibility of increasing overall risk and therefore risk—increased risk on the contingent liabilities of FHA. The 203 Program has been self-supporting, it's been sound, it's actuarially sound, and its reserves should be ample—and we certainly—the projections are that it's ample to take care of the foreclosures that were mentioned a while ago.

We note that the report mentioned or recommended the FHA mortgage amount might be different for existing and proposed or new construction. We don't believe—we're not fully set on that, but right now we don't believe that's a good idea. As realtors and others, we strongly believe that the deductibility of mortgage interest and real property taxes is very important. That's clearly a part of an affordability question.

We presently are involved in a broadbased initiative, as you know, to streamline the entire mortgage process. We believe this is important and that we can lower costs through this, and it can translate into lower costs for borrowers.

Most of us take that first step toward home ownership through the rental market as a first-time renter, as we move along the way, and so how do we addres the rental housing? And it has certainly been talked about in the report. And we believe that the financing of rental multi-family housing for low- and moderate-income families must take place through insurance programs, subsidized below-market interest rate programs, tax-exempt financing and direct loan subsidies. The private sector, the Federal, State and local governments have to share in this responsibility. We look at—certainly, the taking care of the very poor must be and can best be served through low-rent public housing. We recognize that. Because the supply of public housing is currently inadequate to meet the needs, the National Housing Policy, as has been noted, must include a component for construction or acquisition of new public housing units.

A national scale and more universally-workable housing assistance program for low- to moderate-income families is needed, and we have addressed that issue in our printed report that will be there for the record.

The mortgage banking industry has agreed to commit its energy, the skills and whatever resourcefulness we have to provide adequate housing for all citizens. We appreciate the opportunity to be here with you today and just add our commitment that we are sincere in this and we expect to do whatever it is that we can do to make the program work.

Thank you.

Senator CRANSTON. Thank you very, very much. I appreciate that testimony very much.

[The complete prepared statement of Willard Gourley follows:]

(4)

ORAL STATEMENT OF

Willard Gourley, Jr., CMB
Vice Chairman
BarclaysAmerican/Mortgage Corporation
Charlotte, North Carolina

on behalf
of the

Mortgage Bankers Association of America

before the

Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate

Hearings on

Homeownership Affordability, Low and Moderate Income Housing,
and Special Needs
for the Homeless, Handicapped, and Elderly

Los Angeles, California
April 7, 1988

Mr. Chairman and Members of the Subcommittee, my name is Willard Gourley, Jr. I am Chairman of BarclaysAmerican/Mortgage Corporation, located in Charlotte, North Carolina, and I am also serving as President-Elect of the Mortgage Bankers Association of America (MBA).* Accompanying me is Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel. MBA appreciates the opportunity to appear before you today to testify on the issue of affordability.

The time has come to reassess and reinvigorate National housing policy and to determine what is the appropriate role for the Federal government, and to expand and build upon the role of state and local governments and private enterprise in fostering homeownership and preserving affordability and availability of rental housing opportunities.

MBA applauds the efforts of the National Housing Task Force in its report, "A Decent Place to Live", has to provide specific, tangible recommendations for a national housing policy. MBA strongly concurs in the Report's emphasis on the need for a Federal presence in the housing markets and its finding that the Federal housing programs now in place are a sound foundation on which to build our renewed commitment to housing.

AFFORDABILITY

Affordability means vastly different things to the homeownership and rental markets. In looking at the issues of housing affordability in the 1990s and into the next century, Congress must consider a spectrum of needs and problems that face Americans. For those with no income, there is still a right to shelter. For those with low income, Congress must look at the cost burdens that affect these families and the rental assistance that is needed to house this sector of the population effectively. For those of moderate income, Congress must review rental opportunities as well as the potential homeownership opportunities that this component of the population aspires to or needs. For those who are fortunate enough to be of better means, -Congress has wisely provided for a number of mortgage credit programs and federally related entities whose mission is to enhance mortgage credit availability and affordability; these efforts address the important homeownership objectives that this class of citizens share.

MBA opposes any attempt to retarget the non-subsidized FHA insurance programs to first-time homebuyers, inner-city dwellings, families with gross income of $40,000 or less, or to impose any other type of credit rationing. Any restructuring that reduces the attractiveness of FHA to borrowers will inhibit affordability.

MBA opposes limitations on borrowers by income because such limitations could potentially destroy the current risk balance that has served FHA so well and helped to maintain the FHA as a viable, self-supporting program.

Any reanalysis of FHA's role should carefully balance the potential increase in risk factors against purportedly anti-competitive forces. FHA's successful operations presently balance risk by attracting a variety of borrowers. Any restructuring that limits the availability of FHA to lower income borrowers poses the possibility of increasing risk to FHA and, therefore, contingent liability to the Federal government.

HOMEOWNERSHIP AFFORDABILITY

For potential homeowners, affordability can be enhanced by addressing the following components. First, interest rates and their impact on the ability to afford a monthly principal and interest payment for a mortgage are perhaps the single most important feature in assessing and addressing affordability. Second, the downpayment is often a hurdle for potential homebuyers, particularly first time homebuyers, who cannot tap into accumulated equity from their home. Finally, transaction costs, that is those costs that affect the processing and origination of a loan, as well as the continued servicing of a loan, should be scrutinized to determine whether streamlining of these transaction costs can reduce not only upfront closing costs but also long term interest rates by reducing administrative costs.

The following recommendations each address pieces of these affordability components.

- Adjustable rate mortgages (ARMs) have proven to be strong tools in reducing initial mortgage interest rates. Eliminating the statutory volume limitation on the FHA-ARM program will make it available to more potential purchasers, in more markets, and offered by a greater number of lenders.

- MBA also supports the Report's recommendation that the FHA-ARM program allow interest rate adjustments of 2 percent per year with a lifetime cap of 5 percent. This would give consumers a wider choice of affordable options.

- The VA Home Loan Guaranty program should be authorized to guarantee ARMs without a statutory limit on the number of loans that can be guaranteed.

- MBA strongly opposes any further effort to decrease the deductibility of either mortgage interest or real property taxes. Limitations that seem reasonable at the time of enactment can quickly become outdated when interest rates move to higher levels or housing prices increase.

- MBA supports the Report's recommendation that FHA downpayment requirements be amended to 3 percent of the first $50,000 and 5 percent of the balance. This is a modest change that will reduce the downpayment on a $50,000 mortgage from the current law requirement of $2,000 to $1,500, but it will be particularly helpful to first time borrowers.

- MBA supports the Report's recommendation to expand the eligibility of savings invested in IRA, 401(k), etc. tax-exempt or tax deferred savings accounts for investment in downpayments on homes for first time homebuyers.

- While MBA supported the recent increase in the FHA maximum mortgage amount, this step did not fully address the high-cost factor in a number of markets. Therefore, MBA supports the Report's recommendation that the FHA maximum mortgage amount be set at 95 percent of an area's median sales price. MBA, however, has reservations about, and would like to examine further, the implications of the Report's recommendation that the maximum mortgage amount be calculated separately for new and existing homes.

- MBA supports a broad-based initiative to streamline the entire process of making, financing and servicing mortgage loans.

All elements of the mortgage loan origination and servicing relationship should be examined to determine where unnecessary costs occur. The objective should be to provide high quality service, yet to minimize unnecessary, duplicative, and conflicting requirements among different programs or under state law or regulation. Lowering lenders' cost of operations will result in lower interest rates.

MULTIFAMILY RENTAL HOUSING AND AFFORDABILITY

Financing rental multifamily housing requires a variety of approaches used alone or in conjunction with one another. These approaches include:

- insurance programs
- subsidized below-market interest rate programs
- tax exempt financing, and
- direct loan subsidies or rental assistance

Federal, state, and local governments must share the responsibility for providing suitable multifamily rental housing. The governmental role, however, should be enhanced by the participative of private non-profit and for-profit entities who can participate in the process of financing, owning, and managing rental multifamily housing.

As a general principle, where local housing market conditions allow, housing policy should look first toward the use and preservation of the existing stock of housing and surrounding community facilities, before new construction is undertaken. However, demand programs, by themselves, will not address all of the Nation's housing needs.

The very poor are best served through low-rent public housing. Because the supply of public housing is currently inadequate to meet the need, national housing policy should have a component for the construction or acquisition of new public housing units to serve this group, as well as the repair and modernization of existing housing projects.

A national scale and a more universally workable housing assistance program for low- to moderate-income families and individuals is needed. Our printed statement contains a number of specific recommendations that we believe will encourage multifamily rental housing ownership and production.

SUMMARY

MBA commends the National Housing Task Force and this Subcommittee for facing up to the magnitude of housing problems and recognizing the reality that it will be expensive to provide decent and affordable housing for all Americans. Clearly, the Report challenges all of us to set our collective will to the task of doing whatever it takes to address the Nation's housing dilemma. The problems will not go away and must be addressed as a national priority.

The mortgage lending community wants to commit its energy, skill, and resourcefulness to providing adequate housing for all citizens.

MBA appreciates the opportunity to testify today and looks forward to the opportunity to participate in the continuing dialogue and effort to forge viable housing opportunities for a spectrum of America's citizens.

Senator CRANSTON. And now George Breed.

STATEMENT OF GEORGE BREED, CHAIRMAN, STATE GOVERNMENT RELATIONS COMMITTEE, MORTGAGE INSURANCE COMPANIES OF AMERICA

Mr. BREED. Senators, Members of the House, I'm George Breed from PMI Insurance Co. of San Francisco. I'm representing Mortgage Insurance Companies of America, the trade association which represents the entire mortgage insurance industry.

MICA appreciates this opportunity to comment on a new National Housing Policy. I will only discuss increasing home ownership opportunities and will focus on the goals and recommendations of the report of the National Housing Task Force.

Our nation needs a vigorous housing policy that is consistent in its message. The basic tenant of the Task Force report provides this message by calling for a renewal of the Federal commitment to housing which is directed to those most in need.

The Task Force report recommendations with regard to FHA, however, do little to increase home ownership opportunities for low-income people because, unlike the recommendations on mortgage revenue bonds and State and local problems, the report does not advocate targeting FHA.

First, regarding FHA insured ARM's, the Task Force report recommends expanding the program and making available loans that are much less attractive and more risky to the borrower than the present FHA ARM.

ARM's were originally intended to help borrowers who could afford to take the risk that their monthly payments would rise significantly. MICA believes that public policy should not advocate that the borrower receive a loan that could lead to increased foreclosures.

MICA also questions the Task Force recommendation to raise FHA loan limits to 95 percent of median sales price in the market. Experience shows that this will not help low-income borrowers purchase homes. Look at the effect of this proposal in two markets in California, Anaheim/Santa Ana and Sacramento. In order to qualify for a loan on a home at 95 percent of the median sales price in Anaheim, a borrower would probably need income well above $50,000. With the median income in Anaheim today of less than $40,000, the only people eligible for this FHA loan would be well into the wealthiest top half of that population.

Income levels and housing prices are lower in Sacramento than in Anaheim. One reason for this difference between the two who FHA serves is that Sacramento is producing much more affordable housing than Anaheim, and there are charts attached to my prepared statement that set this out in some detail.

Significant social issues are raised by this information. For example, how does a police officer, a school teacher such as Mrs. Jiminez, or other key service sector employees own a home in such markets? Certainly, home ownership options for those with median incomes are not plentiful.

It should be clear from the California experience, however, that if the goal is to deliver home ownership assistance to those whose needs are the greatest, the targeting of assistance cannot be related to home price. A policy that makes Federal assistance available to buy a home in a wealthy area as easily as in more modest area poses policy questions. It's inappropriate because it is directly in contradiction to the idea that resources should be targeted to those most in need. The use of Government assistance must be determined by the income of the borrower, because people with lower incomes simply have less home ownership options than people with higher incomes. This public policy is embedded in other housing efforts such as housing revenue bonds, and the FHA program should conform to it.

Raising the loan limits would also fail to increase home ownership opportunities for lower income people in light of the realities of real estate finance. The market often views FHA ceilings as a price floor for new units.

The Task Force report also recommends that down payment requirements for FHA loans be reduced on higher priced homes. There is a direct correlation between high default and low down payments, and we believe that policy could actually worsen the affordability problem. Does it make sense to encourage higher income people to buy homes with a loan with a 97 percent loan-to-value ratio knowing that the Government will bear a proportionately higher default risk on these loans? We believe it's appropriate for the Government to take greater risk on loans to borrowers with lower income and greater needs.

The FHA resources should be made available to back smaller loans and thus increase the soundness of the FHA programs. There are also charts in my statement that address this issue.

On the other hand, MICA fully supports the Task Force recommendation to permit first-time home buyers to set up a self-funded plan to be used to purchase a home and recommends that they be permitted to invest in an account similar to the old-style IRA's for home purchase.

We recommend that FHA loans be divided into two categories: targetted and non-targeted. Targeted FHA loans would be the borrowers with incomes below a certain percentage of the median family income which would be set by Congress. All the advantages of the FHA program would be available to families in the targeted category. Non-targeted loans would be defined to include all loans provided to people whose income is above the targeted category. An overall maximum income would permit them to have some aspects of the FHA program available.

If FHA is more active in providing mortage credit to those in the margin of home ownership, it would act as a stabilizer for the low-income market, making it more attractive for the private sector. It would also enable an insurer to better spread its risk, enabling more risky loans to be insured.

The overall ability of mortgage credit from both the private and the public sector therefore will increase expanding the ability for more low-income people to own their homes.

Thank you for the opportunity to testify, and I will be happy to answer any questions either today or in writing subsequent to today.

[The complete prepared statement of George G. Breed follows:]

Testimony of George G. Breed, From The Mortgage Insurance Companies of America, Before The Housing Subcommittees Of The House and Senate Banking, Housing and Urban Affairs Committees On A New National Housing Policy

Thursday, April 7, 1988

Mr. Chairman and Members of the Committee:

I am George G. Breed, Senior Vice President of PMI Mortgage Insurance Co. located in San Francisco, California. I serve as Chairman of the State Government Relations Committee of the Mortgage Insurance Companies of America (MICA)*, the trade association representing the entire private mortgage insurance industry.

MICA welcomed the release last week of the Report of the National Housing Task Force. We commend Senators Cranston and D'Amato for initiating the effort and express thanks to the Chairman, Vice Chairman and to all the Task Force members for their excellent work in formulating recommendations that can become a catalyst for housing policy changes as we enter the next decade.

Since the mortgage insurance industry's expertise is in the business of providing credit enhancement to low downpayment affordable home loans, MICA's comments will be confined to the issue of increasing homeownership opportunities. We will discuss those goals and recommendations of the Report of the National Housing Task Force (Task Force Report) that relate to making housing more affordable in high cost areas such as California.

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*MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, William A. Simpson of Republic Mortgage Insurance Company, Winston-Salem, NC; and Vice President, William Lacy of Mortgage Guaranty Insurance Corporation, Milwaukee, WI; Secretary/Treasurer, J. Edward Carlton, Jr., of Integon Mortgage Guaranty Insurance Corporation, Winston-Salem, NC. MICA also has member companies in Canada and Australia. At the end of 1987, the industry had over $213 billion of insurance in force.

Our nation needs a vigorous housing policy that is consistent in its message. The basic tenent of the Task Force Report provides this message by calling for a renewal of the federal commitment to housing, and by directing this federal commitment to those most in need. As the Report points out, for "middle- and upper-income families, housing has been one of our country's most visible success stories", but homeownership for young families is declining particularly for those below the median income level. The Task Force also advocates directing government resources to those individuals whose income is at 80 percent or below the median and points out that homeownership has become steadily less accessible to this economic group.

The Task Force Report's recommendations with regard to FHA, however, do little to increase homeownership opportunities for low income people because, unlike the recommendations on mortgage revenue bonds and local programs, the Report does not advocate targeting FHA. Specifically, the Report offers the following three changes to FHA: 1) expand the availability of adjustable rate mortgages (ARMs); 2) raise the mortgage limits; and 3) reduce downpayments.

Expand the Availability of ARMs

Regarding FHA insured ARMs, the Task Force Report advocates expanding the program and making available loans that are much less attractive and more risky to the borrower than the present FHA ARM. MICA fails to see how this helps lower-income borrowers over the long term and in fact we believe it will lead to increased foreclosures. ARMs were never intended for borrowers with lower incomes and net worths and, therefore, should not be part of housing policy designed to help those families. If a borrower's income is not likely to keep pace with the potential payment increases that are associated with ARMs then public policy should not advocate that the borrower receive a loan with a significantly higher potential for foreclosure.

ARMs came into existence when interest rates began to rise to unprecedent heights. They were intended to help both lenders and investors hedge against continued interest rate increases and to help borrowers who could afford to take the risk that their monthly payment could rise significantly but who wanted a lower initial rate. After several years of experience with ARMs it is recognized today that initial lower ARM rates should not be used to qualify borrowers who otherwise could not afford the home. Note, for example, that Freddie Mac and Fannie Mae both require that the borrower qualify for an ARM at the interest rate that would be in place in year two of the life of the loan. In addition, many private mortgage insurance companies require that borrowers receive ARMs only if they qualify at the fully indexed accrual rate.

etc.

Senator **Cranston**. Thank you very much for that fine testimony.

I'd like to suggest to the three of us that we each ask one question if that would be satisfactory to you.

And I'd like to ask one question that I'd like to ask each of you to answer, but I think you can do it in not more than 1 minute each.

I will start with you, George, since you've directed your testimony most to the actual report. Which single recommendation of the report do you think is the best and most important and practical that we should pursue, and is there any one that is at the top of your list of those we should drop? Could you start with that, and if you can answer that in about 1 minute without going into your reasons. Just state which you think is good and which you think is least good.

Mr. **Breed**. I have only read excerpts of the report, and representatives of the mortgage insurance companies will be testifying next week in Washington. So I think it would be more appropriate to really hold that question for next week so we can be more prepared.

Senator **Cranston**. Fine. Willard, do you have——

Mr. **Gourley**. Well, ours is basically, Senator, the fact that we strongly believe that the report has emphasized the need for the Federal presence in the housing finance market, and that's—we want to emphasize that point.

Senator **Cranston**. Fine. Susan?

Ms. **Jiminez**. I haven't seen the report, but what I'd like to suggest is if we could get something done on the tax deductions for people so they'll be able to get a down payment, because that was our problem, was trying to get $5,000 to $10,000 on a down payment.

Senator **Cranston**. Fine. Dale?

Mr. **Stuard**. I haven't had but just a short time to look at the report, Senator, but I will be testifying on the 12th in Washington on the report.

Senator **Cranston**. Fine. Leo?

Mr. **Saunders**. Senator, I'd say what Willard said: the Federal presence has to remain. It's probably the biggest overlying thing in the report.

Senator **Cranston**. Fine. Nancy?

Representative **Pelosi**. Well, my questions really have been answered by some of the testimony already given and also by the fuller reports that have been submitted.

I guess just taking off Mr. Breed's comments, my question would be, do the members of the panel agree that the public policy should be geared to the lower income buyer of homes or that the availability should reach to higher priced homes and higher income people?

Mr. **Stuard**. Congresswoman, I think our position on that would be that we have to have a total supply picture. We can't limit all of our activities, either the Federal Government, State government or local government, toward one sector of the housing production. We have to have a total package.

But there does need to be some emphasis on the more moderate and low-income side of it.

Mr. **Saunders**. And one other thing is—we keep talking about mean home income—or mean home prices, which is around $80,000 in the country. But we have very high-priced areas, too, and I'm hoping that ultimately we will allow FHA and other programs to be able to float to what the mean income is for a particular area and what the mean home price is of a particular area when we think about qualifying for a loan.

Mr. **Gourley**. Well, I think one of the things that is very important here in California, in some areas that are extremely high-priced, then you get back in the East where a lot of the territory that I cover, we have—a high-priced unit there is a lot lower priced than here. And so that when you try to say what you are targeting for low-income or others, those programs, the FHA and the VA, really because of the limits that are there, because of the way the programs work, they really serve the lower, moderate, middle income group much more than high. I mean, it really hits that group of people.

In our particular operation, 50 percent of the FHA and VA loans are made to first-time home buyers, which is what it really—we don't think it should be targeted because it does—it's a needed step along the way. The FHA and VA programs really provide sort of a foundation there that gets us a step along the way. And, really, there are some high-priced units that are financed that way, but it's a modest amount in the overall scheme of things.

Representative **Pelosi**. Thank you.

Senator **Cranston**. Is that it?

Representative **Pelosi**. Thank you, Mr. Chairman.

Senator **Cranston**. David?

Representative **Dreier**. Thank you very much, Alan. I'd like to ask one question per witness, but I'll just ask one question because I know of the time constraints.

I have had the opportunity to meet in my office with Leo and Dale and Willard, and I will say that I very much appreciate the testimony of George and Susan. And in fact, as George may know, I offered in the Housing Subcommittee, an amendment to deal with many of the items which he outlined. And I'm sorry to say it was beaten back by my colleagues on the Housing Subcommittee.

But what I would like to do is, since Susan mentioned specifically her interest in some kind of tax incentives, I'd like to look at the area of low-income housing and ask each of the panelists to provide us with what recommendations they would provide as far as targeted tax incentives to deal with the low-income housing question.

And if I could just hitchhike on that one, Mr. Chairman, I would also like to have them respond to the whole issue of privatization and vouchers, which I mentioned in my statement, which has come from the Privatization Task Force.

That was all one question, by the way.

Mr. **Saunders**. Well, to summarize, to take your first question, I think that you have to look at not just the affordability of home ownership; you have to start at a lower run on the ladder. As our National Association of Realtors President-elect, Ira Gribin, who has testified before Senator Cranston's committee in the past, has stated, look at it in terms of a ladder and the homeless being possibly not even at the first rung on the ladder yet, and then the first, second and possibly even the third rung being renters, low-income renters—and we probably were all renters at one time before we moved into home ownership. And probably the fourth or fifth rung up on the ladder is the first-time home buyer. And you have to be a first-time home buyer before, obviously, you're a second-time home buyer. And once you become a first-time home buyer, hopefully then equity and appreciation and inflation and all the other wonderful things come along, and then you could start moving up the ladder and we're not as affected as we are when we're down just getting on that ladder.

So I believe that the certificate programs, although we're both of the same political persuasion—we're supposed to be non-partisan—I believe anything the Federal Government can do to get somebody a grasp on that ladder is something we have to do.

Mr. **Stuard**. Well, Congressman, one of the vehicles that we have in place and have had in place and has worked very effectively is the mortgage revenue bonds. Now, we've cut those back considerably. They have served the low- and moderate-income segment of the market very, very well. And one of the things that we would like to see is that we extend that back again. That is an ideal way to attack the situation because of the tax—the monthly payment, which gets it down.

The one thing that I would say, though, in high-cost areas like we have in California where the public improvement side of the cost of housing now has absolutely gone out of the picture and where we have local government now throwing all of the cost of that new infrastructure and public improvement back on the new home buyer is absolutely destroying the affordability of housing. And no matter what we do with the incentives of the federal government, if we can't cure that problem we're not going to be able to have affordability.

The average cost right now in California of the front-end loaded fees that go into a house are $20,000. Now, it wasn't very long ago I was building and selling houses for $20,000. And when we take a look at the lot we're going to put that house on and we add that $20,000 onto it, it dictates we're going to have to build a lot more expensive house than we'd like to.

The home builders themselves are very—we recognize the necessity of having the affordability section to our portfolio of homes that we offer. That's the bread and butter of our industry. It always has been, and it makes good business sense for us to offer that kind of home. So it isn't a case that we don't want to build it. It's a case—the mechanics in the marketplace today deny us the opportunity to be able to build it.

Ms. **Jiminez**. When I was talking about the tax deductions, I was talking to somebody in the real estate department the other day and they were saying in the Federal—there are no deductions. You cannot take deductions if you're renting. Okay? And in the State, it's only about $200. How can you save—I mean, $200 a year is not much to be able to save to putting towards a down payment.

If you could be able to save more for a down payment and save maybe—instead of having $5,000 you can save then, therefore you can put down more and therefore your monthly rates are lower.

So that's what I think needs to be done, something in there, because when we tried, we couldn't save, when we had the apartment. We had to move in with my parents to save. So I think——

Representative **Dreier**. I think that's one of the items that Mr. Breed was referring to, as far as establishing some kind of incentive through something that I've introduced into the Congress, which are modeled after the IRA's, Individual Housing Accounts—IHA's we call them, instead of IRA's, which I think would be a positive step. I think that addresses in part what you are referring to.

Senator **Cranston**. I think that's a good idea, and the Task Force recommended that.

Representative **Dreier**. Right. Very good.

Mr. **Gourley**. Dale, one of the things that we in the East don't like that Californians have shipped to us, and those are impact fees. We are finding impact fees becoming a very significant fact in many of our areas now. It's quite costly and it does—it is having an impact—pardon the pun—on the affordability question.

But in talking about the issue, the tax issue, the MBA is a bureaucratic sort of organization. We have not taken many of the specifics of the report up, and certainly the IRA, the housing account sounds like a good idea. But we will take that and several of the other issues up in May to more clearly understand because it does have tax implications. And one thing that we try very hard to do when we look at the issues of tax credits would be how that offsets other revenues. But it sounds like a good idea.

Senator **Cranston**. Nancy Pelosi has a comment to make.

Representative **Pelosi**. No, I meant after they were all finished.

Mr. **Breed**. As I said earlier, the mortgage insurance industry, the private insurers, feel that the scarce Federal resources should be used most effectively and targeted, so we'd like to see more FHA loans at the lower end helping more people to get their first-time housing.

We also think something like the Individual Housing Account is an excellent idea to take care of the renters so you can at least try to get ahead of being even, as you're saving money and seeing the prices inflate past you.

Representative **Dreier**. I'd like to thank the panelists very much and to say that this is the first time in the 8 years that I've served in the Congress that I have looked at a panel with four different trade organizations represented, and knowing that my father has for over three and a half decades been a member of two of the four trade organizations represented. And my father is sitting right down here, and he especially wanted to come to give a degree of encouragement.

So I thank you all very much for your fine testimony.

Senator **Cranston**. Thank you, David.

Representative **Pelosi**. Thank you, Mr. Chairman. I wanted to thank also the panelists as witnesses for their fine testimony and the commitment that they have made here and in their work to the low-income end of the scale for first-time home buyers.

As one who has been involved in the political process from an organizing standpoint for my whole life, I can say that home ownership is good for the stability of our society. We see that when people own their homes, they have more of a commitment to the community, more interest in the bond issues, what's going on in the schools, what's going on in terms of crime, et cetera, in their neighborhoods. It is an investment in the community. So while it's good for the individual families and their stability, it's good for the community, and I think what you do is good for our society. So I look forward to working with you and very much appreciate your commitment and your testimony this morning.

Thank you.

Senator CRANSTON. Thank you, Nancy.

Your testimony has been very helpful, and I appreciate it very much. I'd like to ask one thing in writing from all of you. Please do take a look at the specific recommendations of the Task Force and let us know which parts you support, which parts you think are not so wise, and what additions, subtractions or amendments you would make in the report.

And, Dale, I'd like to ask you not to respond verbally, but to respond in writing to this question. You said that market circumstances really prevent building affordable housing in many parts of California. What can we do to remedy that situation?

Thank you all very, very much. We will now go to the next panel.

[Pause.]

Senator CRANSTON. Our second panel will be coming up here, I trust, to focus on affordable rental housing. Joining us will be Dan Grady, Chairman, National Advisory Council of HUD Management Agents—Dan has also been an instrumental figure in the National Housing Preservation Task Force which recently released its report on the preservation of low- and moderate-income housing; Helen Sause, President, National Association of Housing Redevelopment Officials; William Cottrell, Executive Director, Clark County Housing Authority, Clark County, Nevada; and Fred Nakamura, San Fernando Valley Legal Services. I thank you all for your presence.

We will start with you, Dan. Please remember the 5 minute injunction.

Mr. GRADY. I shall.

STATEMENT OF DAN GRADY, PRESERVATION TASK FORCE, NATIONAL ADVISORY COUNCIL OF HUD MANAGEMENT AGENTS

Mr. GRADY. Thank you very much, Senator and members of the Committee.

I am Chairman of the National Advisory Council of HUD Managing Agents and also President of—[inaudible]—firm based in San Diego, California, which has been engaged in the development and management of assisted housing since the late 1960's.

Mr. Chairman, the Council commends you for holding these hearings as a prelude to introducing housing legislation which will place housing once again high on the national agenda.

Before reviewing the detailed recommendations of the National Housing Task Force, I would like to address three issues concerning the preservation of the existing subsidized stock.

You mentioned the fact that we issued our own report, and I would respectfully request that that report be made part of the record of these proceedings.

Senator CRANSTON. It will.

Mr. GRADY. There are three items which I would like to talk about the preservation. The first one is the expiring project based rent subsidies which we believe are the major threat to the existing housing inventory and far overshadow the potential loss due to mortgage prepayment. The administration has publicly stated that it does not intend to renew such contracts but will replace them with less expensive vouchers. Both our task force and the National Housing Task Force agree that current budget practices grossly overstate the cost of extending those subsidy contracts. According to the National Housing Task Force report, HUD projects that in fiscal 1991, $8½ billion of budget authority will be required to extend for 5 years—subsidy commitment for nearly 300,000 Section 8 units. However, if all of these contracts are extended, actual expenditure would only increase by an inflation adjustment factor over the current level.

We suggest that the entire concept of budget authority which has been applied to housing should be reviewed. In our view, the level of annual expenditures is a much more meaningful measure of the program costs.

The Council believes that extension and expansion of LMSA (phonetic) contracts is a cost-effective way of preserving and also augmenting the existing stock of low-income housing.

We again recommend that LMSA contracts be offered to owners of insured properties which currently might be in financial distress in certain areas of the country in return for a long-term commitment of that housing for use by low-income families.

Next is the question of capital improvement assistance. In excess of a third of all older HUD subsidized projects are in need of capital replacement or improvements if they are to remain in a fit and livable condition. The usual sources of funds, resyndication proceeds or owner contributions have dried up since the passage of the 1986 Tax Reform Act. It is extremely important that the Congress take necessary action to ensure that the capital improvement assistance section of the 1987 housing act is in fact implemented.

We made a number of recommendations which would tend to mitigate the problems arising from the possible prepayment of 221(d)(3) and 236 mortgages which might occur after the tentieth anniversary of final endorsement of those mortgages. The National Housing Partnership Task Force, I understand, will shortly issue its own preservation report, and HUD this very week has issued regulations implementing Title II of the Housing and Community Development Act of 1987.

We recommend that Congress delay introduction of specific legislation to replace Title II until all reports have been received and studied and after the impact of HUD's interim regulations, which I have not had a chance to review, have been evaluated.

Now let me turn to the report of the National Housing Task Force. We find that the report is excellent. We feel that it's a call to action. It's a definition of housing needs, and it's a demand for renewal of the nation's commitment to provide fit, livable and affordable housing for all Americans through their revitalization of the public-private partnership are both perceptive and timely.

Addressing myself to very specific recommendations, we support the concept of the Housing Opportunity Program, HOP, feel that delivery of funds for new housing through State and local government is appropriate. And if it is coupled with maximum flexibility on the part of those governments in determining the use of the funds, it could produce innovative and important results.

However, we do not see an major benefit in setting aside a specific amount of funds for nonprofit organizations' use. We believe that the best proposals should be funded without regard of the nature or character of the sponsor.

We encourage the development of new entities, such as the Benevolent Lending and Community Development Banks, to attract funds to finance local housing efforst. We are concerned, however, that at best only a small portion of the capital needed in the next decade will result from these intiatives, and we encourage Congress to also develop a more effective program to once again attract the capital which would be needed to produce the housing which is to be built in the next decade.

Recommendation 3 dealing with the nation's existing low-income housing stock. We've talked previously about the preservation of the existing subsidies. We also support the recommendation of the National Task Force to use HOP funds to preserve and rehabilitate existing unsubsidized older inventory so that it may once again become part of the fit, livable and affordable housing stock. We believe that a significant percentage should continue, however, to be occupied by a family whose income is less than 50 percent of median. And we recognize and we certainly want to warn Congress that special rental assistance will probably be required in order to achieve that goal.

Recommendation 4 on public housing. Many of our council members are experienced in handling the same management problems that occur in public housing. However, whenever HUD must intervene to modernize projects or to replace non-performing authorities, the talents available in the private management industry should be utilized to the greatest extent possible.

I would like to just mention one more item on tax policy and low-income housing. Any workable housing program will require restoration of special tax incentives to attract investment in low-income housing. The low-income tax credit provisions of the 1986 Act must be amended if the tax credits are to be used to any extent. We also believe that major amendments to the Tax Reform Act of 1986 are needed. We feel that the recommendations of the National Housing Task Force do not go far enough. We urge the Congress to also consider our own recommendations and to provide sufficient incentives to attract the required capital to finance low-income housing preservation and production.

Mr. Chairman, the rest of my report is in writing, and I would like again on behalf of the Council to commend the National Housing Task Force to bring forth a comprehensive report to meet the challenges of today and the decade ahead.

We are prepared to work with Congress, the National Housing Task Force and other organizations to support the enactment of legislation which will transform these proposals into a fully-funded comprehensive program to meet the housing needs of all Americans.

Thank you for the opportunity to testify before the Committee today.

Senator CRANSTON. Thank you, Dan.

[The complete prepared statement of Daniel B. Grady follows:]

TESTIMONY OF
DANIEL B. GRADY, CHAIRMAN
THE NATIONAL ADVISORY COUNCIL OF HUD MANAGEMENT AGENTS

BEFORE A JOINT HEARING
OF
THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
AND
THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Thursday, April 7, 1988

Mr. Chairman, members of the Committee, my name is Daniel Grady. I am the Chairman of the National Advisory Council of HUD Management Agents (NAC) and testifying today on behalf of that organization. I am also the President of Monfric, a firm based in San Diego, California which has been engaged in the development and management of assisted housing since the late 1960's.

I would like to express my appreciation for being permitted to share our views with you today.

As further introduction, the National Advisory Council of HUD Management Agents is an independent body of 46 property management firms and associations who together manage the majority of all privately owned government assisted housing in the country. We work together to preserve the existing stock of federally assisted housing and to improve the quality of management of that housing. We are in constant dialogue with the regulatory agencies on procedures, practices and regulations that will make housing work better. We also try to practice what we preach.

Mr. Chairman, the Council commends you for holding these hearings as a prelude to introducing housing legislation which will place housing once again high on the national agenda. It is indeed a tragedy that eight years of continued reduction of federal support for housing has created the paradox that the best housed nation in the world is losing ground in meeting the needs of low income people, families living in poverty and the homeless.

The report of the National Housing Task Force - A Decent Place To Live - is excellent. Its' "call to action", its' definition of housing needs and its' demand for renewal of the nation's commitment to provide fit, livable and affordable housing for all Americans through the revitalization of the public private partnership are both perceptive and timely.

Before reviewing the detailed recommendations contained in that Report, I would like to address the preservation of the existing subsidized housing stock issue.

The National Housing Preservation Task Force, sponsored by NAC and charged with recommending solutions to alleviate the potential loss of a large segment of privately owned assisted housing serving low and moderate income families, released its own report on February 15, 1988 and I would respectfully request that that report be made part of the record of these proceedings.

We are particularly gratified that the National Housing Task Force's report reinforced the recommendations contained in our own Report.

EXPIRING RENT SUBSIDIES

Expiring rent subsidies are the major threat to the existing assisted housing inventory and far overshadow the potential loss due to certain mortgage prepayment.

Approximately 50% of the tenants occupying units in 221(d)3 and 236 projects, receive rental subsidies under the Section 8 Loan Management Set Aside program (LMSA). The 15 year contracts attached to those projects will begin to expire in 1991 while the 5 year contracts issued in 1974 and later will begin to run out in 1989. The Administration has publicly stated that it does not intend to renew such contracts but will replace them with "less expensive vouchers".

The Preservation Task Force and the National Housing Task Force (NHT) agree that current budget practices grossly overstate the cost of extending those subsidy contracts. According to NHT's report, HUD projects in fiscal 1991, 8.5 billion of budget authority will be required to extend for five years, subsidy commitments for nearly 300,000 Section 8 units. However, if all those contracts are extended, actual expenditures would only increase by an inflation adjustment factor over the current levels. Thus extension of these contracts only calls for maintenance of the current level of expenditures adjusted for inflation.

We suggest that the entire concept of Budget Authority should be reviewed. In our view, level of annual expenditures are a more meaningful measure of program costs.

Our Council enthusiastically supported Section 263c of the Housing Development Act of 1987 requiring extension of all expiring contracts. We were dismayed to learn that certain HUD officials in a machiavellian twist of the intent of Congress would now interpret that provision which itself sunsets in 1990 to apply only to those contracts which would expire in the 21st century!!

The Council believes that extension and expansion of LMSA contracts is a cost effective way of preserving and augmenting the existing stock of low income housing. The Council and its' Preservation Task Force again recommend that LMSA contracts be offered to owners of insured properties which might be in financial distress in return for a long term commitment of that housing for use by low income families. The annual expenditures involved would be small compared to the potential drain on the insurance fund if any of these projects defaulted or to the cost of acquiring or building a similar number of housing units.

CAPITAL IMPROVEMENT ASSISTANCE

In excess of a third of all older HUD subsidized projects are in need of capital replacement or improvements if they are to remain in a fit and livable condition. The usual sources of funds - i.e. resyndication proceeds or owner contributions have dried up since the passage of the 1986 Tax Reform Act. It is extremely important that the Congress take necessary action to insure that Section 185 of the 1987 Act is fully implemented.

MORTGAGE PREPAYMENTS

The Preservation Task Force made a number of recommendations to mitigate problems arising from prepayment of 221(d)3 and 236 mortgages on or after the 20th anniversary of final endorsement.

The National Housing Partnership Task Force will shortly release its' own preservation report and HUD will soon issue regulations implementing Title II of the Housing and Community Development Act of 1987. We recommend that Congress delay introduction of specific legislation to replace Title II until all reports have been received and studied and the impact of HUD's interim regulations evaluated.

In addition it is probable that the package of incentives to be offered to owners to encourage them to extend the regulatory restrictions of their projects will include substantial tax benefits. It does not appear that the Congress is prepared to consider substantial amendments to the Tax Reform Act of 1986 until next year.

THE REPORT OF THE NATIONAL HOUSING TASK FORCE

We earlier expressed our support for the Report and endorsed their call for a renewed national commitment to housing starting with a reaffirmation of the federal government role as a leader in developing solutions to the country's housing problems. We now would like to comment in greater detail on those recommendations dealing with Rental Housing for Low and Moderate Families.

Recommendation I - A NEW SYSTEM FOR DELIVERING AFFORDABLE HOUSING

We support the concept of the "Housing Opportunity Program" (HOP). Delivery of funds for new housing through state and local governments is appropriate and coupled with maximum flexibility in determining their use of these funds, could produce dramatic results. However, it will be essential to retain in HUD's field offices the excellent professional staff which has been trained over the past years to perform the oversight reviews required by the report and to assume the role of Fund Administrator in those cases where states may not choose to participate in the program.

We do not see any major benefit in setting aside a specific amount of funds for non-profit organization's use. We believe that the best proposals should be funded without regard to the nature of the sponsor.

Recommendation II - NEW SOURCES OF CAPITAL AND A NEW INSTITUTION FOR LOW INCOME HOUSING

Although we encourage the development of new sources such as Benevolent Lending, Community Development Banks and HOCA to attract funds to finance local housing efforts, we are concerned that at best, only a small portion of the capital needed in the next decade will result from those initiatives.

We encourage the Congress to also develop a more effective program to again attract the needed amounts of capital to produce the housing needed to meet the nation's needs.

Recommendation III - THE NATION'S EXISTING LOW INCOME HOUSING STOCK

We recognize that there exists a large supply of privately owned unsubsidized older housing which provides shelter for large numbers of low income renters. Many of these units are in need of improvements and rehabilitation. In many cases neighborhood improvement is also needed. Innovative programs undertaken under the sponsorship of concerned local government can serve as models. We support the recommendation of the National Housing Task Force to use HOP funds to preserve and rehabilitate this older inventory so that it may become part of the fit, livable and affordable housing stock. A significant percentage (may be half of all rehabilitated units) should continue to be occupied by families whose income is less than 50% of median. Special rental assistance will be required to achieve that goal.

Recommendation IV - PUBLIC HOUSING

Many members of NAC are experienced in handling the same management problems that occur in Public Housing. Whenever HUD must intervene to modernize projects or to replace non-performing authorities, the talents available in the private management industry should be utilized to the greatest extent possible.

Recommendation V - TAX POLICY AND LOW INCOME HOUSING

Any workable housing program will require restoration of special tax incentives to attract investment in low income housing. The low income tax credit provisions of the 1986 Act must be amended if the credits are to be used to any great extent.

We believe that major amendments to the Tax Reform Act of 1986 are needed. The National Housing Task Force recommendations do not go far enough. We urge the Congress to also consider the recommendations of the Preservation Task Force and provide sufficient incentives to attract needed capital to finance low income housing preservation and production.

Recommendation VI - THE GAP BETWEEN HOUSING COSTS AND INCOME

We applaud the Task Force's forthrightness in recognizing that a substantial portion of the ten million families with income below $10,000 could not afford to pay the direct operating expenses of the apartments in which they lived, even if those units were donated.

Such families need direct rental assistance. We support the Task Force's recommendations to increase the level and the effectiveness of such assistance.

Recommendation IX - FAIR HOUSING

We support the Task Force's recommendations.

In conclusion Mr. Chairman, the Council commends the National Housing Task Force for bringing forth a comprehensive report to meet the challenges of today and the decade ahead. We are prepared to work with the Congress, the National Housing Task Force and other organizations to support the enactment of legislation which will transform these proposals in a fully funded comprehensive program to meet the housing needs of all Americans.

Thank you for the opportunity to appear before this Joint Committee Hearing.

Senator CRANSTON. Helen.

STATEMENT OF HELEN SAUSE, NATIONAL ASSOCIATION OF HOUSING REDEVELOPMENT OFFICIALS

Ms. SAUSE. Thank you, Senator Cranston, for taking the lead in restoring housing and community development to the national agenda. We are delighted that you have embarked on a bipartisan, bicameral examination of existing programs and needs.

The National Association of Housing and Redevelopment Officials is the 55 year old membership organization of 8500 professionals throughout the United States who administer HUD programs at the local level. Our membership has long participated in the creation and fine-tuning of national housing policy and programs, and we believe our hands-on expertise will again be helpful to you.

The Task Force report clearly focuses on the supply problem and proposes a straightforward production program. However, we are troubled by the proposed targeting levels to only the very low income virtually to the exclusion of all other needy groups who are not served by the private housing market. And as our public housing experience during the years has shown, serving only the poorest of the poor in concentrated sites is bad social and economic policy.

The Task Force approached their task with seriousness and diligence. They defined the problems of housing supply and affordability, but they do appear to have overlooked the existing delivery system. As a result, they propose recreating entities to produce, finance and manage low-rent housing. This implies start-up costs, time and expertise which our budget-conscious nation cannot afford.

We hope, Senator Cranston, that you will explore the track record and existing authority of housing production using local housing authorities, community development and redevelopment agencies, State and local housing finance agencies, neighborhood housing services, the Neighborhood Reinvestment Task Force and savings and loan associations. We believe it is important to use demonstrated State and local capacity in a flexible system.

And I have a notebook which we have submitted which demonstrates some of the housing that we have achieved in the last 2 years using those systems, because local officials have done more with less with the 1980's decade of Federal neglect and abandonment. With revenue-sharing ended, the Federal commitment to increasing the supply of affordable housing at a standstill, localities and States have formed unique partnerships to fill the gap using their local agencies: churches, employers, financial institutions and other private and non-profit organizations.

With goals and policies set nationally, new legislation should build on the demonstrated capacity at those levels.

We believe that you should also leverage other resources and dollars, that this is essential. Federal dollars should be contingent on a criteria that considers other dollars that will be generated. The demonstrated track record of the entitites that are to carry out the programs and the provision of an array of resources, both public and private, brought to bear and a holistic approach to the family in need.

There is also a fixed Federal commitment in the $75 billion investment in existing public housing stock which provides 1.4 million units at affordable rents and houses some four million people. This existing low-income housing must be maintained, modernized and preserved.

Another option that the committee should consider is a program for the housing authorities to acquire buildings where owners decline to continue with the assisted housing contract. Such a proposal is described in the report that has been provided to the subcommittee.

We also believe it's important to bear in mind the dynamic of supply and demand in the private housing market. An estimated 200,000 low-rent units are lost from the private unsubsidized inventorv each year due to demolitions, conversions, rent increases or abandonment. And at the same time, American families and senior citizens are slipping into homelessness because they are unable to compete in the private market for housing they can afford. This has been recently documented in the State of the Nation's Housing just released by the Harvard Joint Center for Housing Studies which presents the stark contract of the rich getting richer and the poor getting poorer.

And while the gross numbers appear to show an increase in rental housing, the Harvard report notes that these rental units appearing in Houston do not serve our constituencies in Boston or Connecticut or San Francisco.

So national legislation must be flexible and must provide a mix of demand as well as supply subsidies which localities can use to meet their particular rental market needs.

The neglect of our nation's shelter needs has given rise to the visible result of the homelessness. Families have been forced to double up, split up, and go homeless in the face of a 75 percent reduction in funding of assisted housing programs since 1981.

Further, the Federal commitment not only must be restored but must have a stop-put to the yo-yo effects that have existed for many years now, where we have a start-up and a stopping of programs. The continued shortening of terms of assistance has added an additional volatile element to the picture.

So, in summary, I'd like to say the report should focus on creating the national recommitment to housing, should use proven mechanisms for delivery of housing, provide flexible programs which promote partnerships, do not concentrate the poor in single sites or single areas, and treat housing as a holistic issue which addresses both education, jobs, childcare, as well as housing needs.

So, again, thank you, Senator, thank you, Congresswoman Pelosi, Congressman Dreier. NAHRO stands ready to assist you in your courageous efforts to achieve a national commitment.

Senator CRANSTON. Thank you very much, Helen. We've received your photo-essay from the Journal of Housing and we thank you for that and we'll look at that with great care. Thank you.

[The complete prepared statement of Helen L. Sause follows:]

NAHRO National Association of Housing and Redevelopment Officials
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STATEMENT

of

HELEN L. SAUSE
President
NATIONAL ASSOCIATION OF HOUSING
AND REDEVELOPMENT OFFICIALS

Before
A

JOINT HEARING

Senate Subcommittee on Housing and Urban Affairs

and

House Subcommittee on Housing and Community Development

on

A NEW NATIONAL HOUSING POLICY

April 7, 1988

UCLA-Center for Finance and Real Estate

Helen L. Sause, President. **Apolonio Flores**, Senior Vice President. **Michael A. Garcia, Jr.**, Vice President-Commissioners. **William H. Garrett**, Vice President-Community Revitalization and Development. **Jack Quinn**, Vice President-Housing. **Michael F. Hanratty**, Vice President-Member Services. **Ophelia B. Basgal**, Vice President-Professional Development. **Richard Y. Nelson, Jr.**, Executive Director

THANK YOU, SENATOR CRANSTON, FOR TAKING THE LEAD IN RESTORING HOUSING AND COMMUNITY DEVELOPMENT TO THE NATIONAL AGENDA. YOU ARE THE HERO TO WE WHO CARE DEEPLY ABOUT LOWER INCOME AMERICANS LEAST ABLE TO FEND FOR THEMSELVES AND WE WHO CARRY OUT THE HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS CRAFTED BY THE CONGRESS.

WE ARE DELIGHTED THAT YOU HAVE EMBARKED ON A BIPARTISAN, BICAMERAL EXAMINATION OF EXISTING PROGRAMS AND NEEDS.

AS YOU KNOW, THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS IS A 55 YEAR OLD PROFESSIONAL MEMBERSHIP ORGANIZATION OF HOUSING AND COMMUNITY DEVELOPMENT OFFICIALS THROUGHOUT THE UNITED STATES WHO ADMINISTER HUD PROGRAMS AT THE LOCAL LEVEL. OUR MEMBERSHIP, NUMBERING 8500, HAS LONG PARTICIPATED IN THE CREATION AND FINE-TUNING OF NATIONAL HOUSING POLICY AND PROGRAMS. WE BELIEVE THAT OUR HANDS-ON EXPERTISE WILL AGAIN BE HELPFUL TO YOU.

IN KEEPING WITH THE PRECEPTS WHICH YOU HAVE LAID DOWN FOR THIS INQUIRY, WE HAVE IDENTIFIED WHAT WE BELIEVE TO BE A MANAGEABLE NUMBER OF OBJECTIVES WITH CLEAR, CROSS-CUTTING THEMES. WE HAVE DRAWN ON THE EXPERIENCE OF OUR MEMBERS IN RUNNING LOW RENT PUBLIC HOUSING, SEC. 8 VOUCHERS AND CERTIFICATES, COMMUNITY DEVELOPMENT BLOCK GRANTS, AND URBAN DEVELOPMENT ACTION GRANTS.

THE PRECEPTS WHICH I WILL ADDRESS WHICH FORM THE BASIS FOR A SOUND, RATIONAL NATIONAL HOUSING POLICY ARE:

1. BUILDING ON TESTED EXPERIENCE

2. USING DEMONSTRATED STATE AND LOCAL CAPACITY IN A FLEXIBILE SYSTEM

3. LEVERAGING OTHER DOLLARS/RESOURCES THROUGH PARTNERSHIPS

4. PRESERVING THE EXISTING LOW/MODERATE INCOME HOUSING STOCK

5. MAKING HOUSING AFFORDABLE THROUGH BOTH SUPPLY AND DEMAND STRATEGIES

6. KEEPING THE FEDERAL COMMITMENT TO AFFORDABLE HOUSING IN STABLE COMMUNITIES

NAHRO'S PROPOSALS FOR NEW APPROACHES TO HOUSING AND COMMUNITY DEVELOPMENT IN THE 1990'S ~~WERE~~ SUBMITTED TO YOUR RESPECTIVE SUBCOMMITTEES LAST OCTOBER AND ARE INCORPORATED ~~IN THE~~ SUBCOMMITTEE PRINT ENTITLED "A NEW NATIONAL HOUSING POLICY". OUR PROPOSALS, ENTITLED "KEEPING THE COMMITMENT: AN ACTION PLAN FOR BETTER HOUSING AND COMMUNITIES FOR ALL" DESCRIBED IN GENERAL TERMS ELEVEN PROGRAMS TO ADDRESS PRESENT AND PROJECTED NEED. WE HAVE DEVELOPED DETAILED WORKING PAPERS ON A NUMBER OF THESE PROPOSALS AND HAVE SUBMITTED THEM FOR THE RECORD HERE TODAY.

THEY INCLUDE A FLEXIBLE RENTAL ASSISTANCE PROGRAM COMBINING THE BEST FEATURES OF THE SEC. 8 CERTIFICATE AND VOUCHER PROGRAM WITH SIMPLIFIED PROGRAM

REQUIREMENTS.

WE REESTABLISH BOTH A HOUSING PRODUCTION PROGRAM FOR LOW INCOME AMERICANS AND A COMMUNITY REVITALIZATION PROGRAM TO STABILIZE NEIGHBORHOODS BY RETURNING VACANT STRUCTURES AND GROUND TO USE AS HOUSING, RETAIL SHOPPING AND SERVICES, AND EMPLOYMENT.

AND WE BUILD ON EXISTING, PROVEN PROGRAMS SUCH AS PUBLIC HOUSING OPERATING AND MODERNIZATION ASSISTANCE; AND COMMUNITY DEVELOPMENT BLOCK GRANTS. OUR PROPOSALS REWARD PERFORMANCE BY LOCAL PUBLIC AGENCIES WITH FEDERAL ASSISTANCE WHILE REDUCING MICROMANAGEMENT FROM THE FEDERAL LEVEL TO ENABLE LOCAL AGENCIES TO DO THEIR JOB.

WE WERE DELIGHTED TO SEE THE NATIONAL HOUSING TASK FORCE RECOMMEND A LOW RENT HOUSING PRODUCTION PROGRAM TO REGAIN THE GROUND WE'VE LOST. AND WE WERE PLEASED TO SEE THE PROPOSAL RECOMMEND A NEEDS-BASED DISTRIBUTION FORMULA TO LOCALITIES FOR HALF THE PROPOSED $3 BILLION WITH THE BALANCE CONTINGENT ON NEW LOCAL OR STATE DOLLARS. THIS ENSURES A PARTNERSHIP BETWEEN AND AMONG LEVELS OF GOVERNMENT FOR THE LONG TERM BECAUSE OF THE FINANCIAL COMMITMENT OF EACH.

WE WERE TROUBLED, HOWEVER, MR. CHAIRMAN, BY THE 'MINIMALIST' APPROACH TAKEN BY THE REPORT TOWARD THE FUTURE OF THE PUBLIC HOUSING PROGRAM.

BUT PERHAPS WE HAVE MISREAD THE REPORT. WHEN THE REPORT LAUDS THE TRACK RECORD OF COMMUNITY-BASED, NON-PROFIT DEVELOPERS, COMMITTED TO LOW-INCOME RESIDENTS ON A LONG-TERM BASIS, AND DEDICATED TO OVERALL COMMUNITY REVITALIZATION -- WE KNOW IT MUST BE TALKING ABOUT PUBLIC HOUSING AUTHORITIES, IN ADDITION TO OTHERS, WHICH HAVE BEEN IN THE FOREFRONT OF VOLUME PRODUCTION OF LOW RENT PUBLIC HOUSING FOR ALMOST 50 YEARS.

CERTAINLY PHAs ARE 'COMMUNITY-BASED', AS THEIR BOARDS ARE COMPOSED OF CITIZENS ACTIVISTS, TENANTS, COMMUNITY LEADERS, AND LOCAL ELECTED OFFICIALS, ALL OF WHOM ARE ACCOUNTABLE TO THEIR COMMUNITY AND CHIEF ELECTED OFFICIAL.

CERTAINLY PHAs ARE NON-PROFIT, AS THEY ARE LOCAL GOVERNMENT ENTITIES SERVING THE POOREST OF THE POOR.

CERTAINLY THEY ARE COMMITTED TO LOW-INCOME RESIDENTS ON A LONG-TERM BASIS, AS FOR DECADES THEY HAVE BEEN IN THE BUSINESS OF HOUSING IN THEIR COMMUNITIES AND AREN'T GOING TO DISAPPEAR DUE TO LACK OF FUNDS, INTEREST, COMMITMENT, OR VOLUNTEERS.

IN CALIFORNIA, AS IN MOST OTHER STATES, THESE AUTHORITIES WITH THEIR BOARDS OF CITIZEN AND ELECTED PUBLIC OFFICIALS, AND THEIR STAFFS EXPERIENCED IN MANAGEMENT, LEASING, FINANCE, DEVELOPMENT, AND TENANT RELATIONS, ARE AN EXISTING, PROVEN, DELIVERY SYSTEM FOR A RANGE OF HOUSING PROGRAMS.

THEY DON'T REQUIRE START-UP TIME, LEGAL AUTHORITY, CAPACITY BUILDING, TECHNICAL ASSISTANCE, OR SEED MONEY. THEY EXIST NOW AND ARE READY TO RESUME VOLUME PRODUCTION OF LOW RENT HOUSING WHICH THEY HAVE BEEN UNABLE TO DO DURING THIS DECADE DUE TO LACK OF FEDERAL FUNDS.

THEIR SOLE PURPOSE IS TO PROVIDE HOUSING AND RELATED SUPPORT SERVICES FOR LOW-INCOME AMERICANS.

UNDER CURRENT LAW, PHAs CAN CONSTRUCT, REHABILITATE, AND LEASE LOW-RENT HOUSING. THEY CAN MANAGE HOUSING, ACQUIRE SITES THROUGH EMINENT DOMAIN, ISSUE TAX-EXEMPT BONDS, AND ENTER INTO JOINT VENTURES . THEY CAN OPERATE RENTAL ASSISTANCE PROGRAMS OF LOCAL, STATE, AND FEDERAL GOVERNMENT, MANAGE OR CONTRACT TO OPERATE SPECIAL-USE HOUSING SUCH AS AFTER-CARE AND FARMWORKER HOUSING, AND THEY CAN ACCEPT DONATIONS.

THE TASK FORCE REPORT FOCUSES CLEARLY ON THE SUPPLY PROBLEM AND PROPOSES A STRAIGHTFORWARD PRODUCTION PROGRAM WITH AN EASY-TO-REMEMBER NAME (HOUSING OPPORTUNITIES PROGRAM) AND A REASONABLE LEVEL OF FUNDING ($3 BILLION), GIVEN CURRENT BUDGET CONSTRAINTS. IT REPLACES A NUMBER OF PROVEN PRODUCTION PROGRAMS WITH A PREDICTABLE FUNDING LEVEL.

IT MIGHT HAVE EMPHASIZED MORE THE PRINCIPAL SPECIAL NEEDS GROUP IN DESPERATE NEED OF HOUSING ASSISTANCE -- LARGE FAMILIES WITH ONE PARENT.

WE ARE TROUBLED BY THE PROPOSED TARGETING LEVELS TO VERY-LOW INCOME VIRTUALLY TO THE EXCLUSION OF ALL OTHER NEEDY GROUPS WHO ARE NOT SERVED BY THE PRIVATE HOUSING MARKET. AND, AS OUR PUBLIC HOUSING EXPERIENCE DURING THE YEARS HAS SHOWN, SERVING ONLY THE POOREST OF THE POOR IN CONCENTRATED SITES IS BAD SOCIAL AS WELL AS ECONOMIC POLICY.

WE ARE SYMPATHETIC WITH THE REPORT'S RECOMMENDATIONS TO DECONCENTRATE PUBLIC HOUSING WITH PARTICULAR EMPHASIS ON RELOCATING FAMILIES OUT OF HI-RISE BUILDINGS.

BUT THAT GOAL IS AN ELLUSIVE ONE WITHOUT A RESOURCE IN WHICH TO RE-HOUSE SUCH FAMILIES. THE REPORT MAKES IT CLEAR THAT FURTHER PUBLIC HOUSING PRODUCTION WILL CONTINUE WITHIN BUDGETARY CONSTRAINTS. THE PUBLIC HOUSING PROGRAM SHOULD NOT BE SUBJECT TO BUDGET CONSTRAINTS ANY MORE SEVERE THAN OTHER PROGRAMS. THE REAL ISSUE OUR COUNTRY MUST FACE IN ORDER TO MAKE LOW-INCOME HOUSING AND OTHER DOMESTIC PROGRAMS WORK IS A REORDERING OF NATIONAL PRIORITIES.

WE HAVE TO ASK WHERE FAMILIES IN PUBLIC HOUSING HI-RISES ARE TO BE RELOCATED, ABSENT ADDITIONAL PUBLIC HOUSING. WE, TOO, SUPPORT A ONE-FOR-ONE REPLACEMENT POLICY FOR DECONCENTRATION OF PUBLIC HOUSING PROJECTS. BUT, AGAIN, WE CANNOT IMPLEMENT SUCH A POLICY, TO ENSURE THAT NO LOW-RENT PUBLIC HOUSING IS LOST FROM THE NATIONAL INVENTORY, WITHOUT AN ASSURED FEDERAL PIPELINE OF NEW UNITS TO BE EMPLOYED IN SCATTERED SITE LOCATIONS.

THE ROUSE/MAXWELL TASK FORCE APROACHED THEIR TASK WITH SERIOUSNESS AND DILIGENCE. THEY DEFINED THE PROBLEM OF HOUSING SUPPLY AND AFFORDABILITY. WHAT THEY APPEAR TO HAVE OVERLOOKED IS EXISTING DELIVERY SYSTEMS -- FROM LOCAL PUBLIC AGENCIES, TO THE NATION'S THRIFT INDUSTRY.

AS A RESULT, THEY HAVE RECREATED ENTITIES TO PRODUCE, FINANCE, AND MANAGE LOW RENT HOUSING. THIS IMPLIES COSTS, TIME, AND EXPERTISE WHICH OUR BUDGET-CONSCIOUS NATION CANNOT AFFORD.

WE HOPE, SENATOR CRANSTON, THAT YOU WILL EXPLORE THE TRACK RECORD AND EXISTING AUTHORITY TO DO THE JOB OF LOCAL HOUSING AUTHORITIES, COMMUNITY DEVELOPMENT AND REDEVELOPMENT AGENCIES, STATE AND LOCAL HOUSING FINANCE

AGENCIES, NEIGHBORHOOD HOUSING SERVICES, THE NEIGHBORHOOD REINVESTMENT TASK FORCE, AND SAVINGS AND LOAN ASSOCIATIONS.

THERE'S A SAYING, "IF IT AIN'T BROKE, DON'T FIX IT." WE SUBMIT, MR CHAIRMAN, THAT PRESENT AUTHORITY, EXPERTISE, AND TRACK RECORD ALREADY EXISTS FOR MUCH OF WHAT WE ALL SEEK TO ACCOMPLISH. WHAT IS NEEDED IS A RECOMMITMENT OF FEDERAL RESOURCES TO REESTABLISH A WORKING PARTNERSHIP.

LET ME RETURN NOW TO THE SIX PRECEPTS I HAVE NAMED AND DESCRIBE HOW WE WOULD APPROACH EACH OF THEM.

1. BUILDING ON TESTED EXPERIENCE:

THERE ARE APPROXIMATELY 3000 LOCAL PUBLIC HOUSING AUTHORITIES (PHAs) NATIONWIDE WHICH MANAGE 1.3 MILLION UNITS OF CONVENTIONAL PUBLIC HOUSING FOR 4 MILLION AMERICANS. THIS LOW INCOME PUBLIC HOUSING STOCK IS A $75 BILLION PUBLIC INVESTMENT, A SIGNIFICANT PORTION OF WHICH IS 30 - 40 YEARS OLD AND IN NEED OF SUBSTANTIAL REHABILITATION.

CREATED BY THE NATIONAL HOUSING ACT OF 1937, PUBLIC HOUSING HAS ASSISTED MILLIONS OF AMERICAN FAMILIES EXPERIENCING TEMPORARY FINANCIAL DIFFICULTIES TO REGAIN THEIR FOOTING AND RETURN TO THE PRIVATE HOUSING MARKET. AN EARLY PURPOSE OF THE PROGRAM WAS TO SERVE AS A TEMPORARY WAY STATION FOR THOSE SEEKING FINANCIAL SELF-RELIANCE.

TODAY MANY PROMINENT AMERICANS, INCLUDING SOME MEMBERS OF CONGRESS AS WELL AS A FORMER PRESIDENT,CAN LOOK BACK TO THEIR EARLY DAYS OF FINANCIAL STRUGGLE AND THE SAFETY NET WHICH PUBLIC HOUSING PROVIDED WHILE THEY GOT ON THEIR FEET. AFFORDABLE LOW RENT PUBLIC HOUSING HAS ENABLED FAMILIES TO STAY TOGETHER.

CONTINUED TURNOVER AS FAMILIES MOVE UP AND OUT INTO THE PRIVATE MARKET CONTINUES TODAY AT AN AVERAGE RATE OF 30 PERCENT PER YEAR. YET, FOR SOME RESIDENTS OF PUBLIC HOUSING, ADDITIONAL RESOURCES ARE NEEDED IF THEY ARE TO ACHIEVE SELF-RELIANCE.

APPROXIMATELY 30 PERCENT OF PUBLIC HOUSING RESIDENTS ARE THIRD AND FOURTH GENERATION RESIDENTS. THEIR AVERAGE FAMILY INCOME IS "VERY LOW" - LESS THAN 50 PERCENT OF THE AREA MEDIAN INCOME, OR ABOUT $6500. THE MAJORITY OF THEM ARE SINGLE MOTHERS WITHOUT A HIGH SCHOOL DEGREE, JOB SKILLS, AND EARNED INCOME. THEIR CHILDREN, BORN INTO POVERTY, HAVE LOW SELF-ESTEEM AND ARE POOR ACHIEVERS IN SCHOOL.

NEARLY ONE MILLION CHILDREN FAIL TO COMPLETE THEIR EDUCATION EACH YEAR. MARGINALLY ILLITERATE, THEY ARE UNEMPLOYABLE AND AT RISK OF SUCCUMBING TO DRUG ABUSE AND CRIME. EACH CLASS OF DROPOUTS COSTS OUR NATION ABOUT $240 BILLION IN LOST WAGES AND UNPAID TAXES DURING THEIR LIFETIMES. ONE OUT OF EVERY SIX BABIES BORN TODAY IN THE U.S. IS BORN TO A TEENAGE MOTHER. WE AS A NATION ARE FACING THE PROSPECT OF A PERMANENT UNDERCLASS UNLESS THIS CYCLE OF POVERTY AND DEPENDENCE CAN BE BROKEN.

THESE MULTI-PROBLEM FAMILIES NEED A RANGE OF SUPPORTIVE SERVICES IN ORDER TO TAKE CHARGE OF THEIR LIVES: CHILD-CARE; EARLY CHILDHOOD EDUCATION; HIGH SCHOOL EQUIVALENCY EDUCATION; JOB TRAINING AND PLACEMENT; PHYSICAL AND MENTAL HEALTH CARE; PARENTING EDUCATION; AND ENGLISH AS A SECOND LANGUAGE.

THESE NEEDS WILL NOT BE MET UNLESS FUNDAMENTAL CHANGES ARE MADE TOWARD THE COORDINATED DELIVERY OF HOUSING, JOBS, AND HUMAN SERVICES. CATEGORICAL PROGRAMS WHICH TARGET ONLY HOUSING, OR ONLY JOBS, OR ONLY SUPPORT SERVICES WILL NOT SUCCEED. WE MUST PROVIDE COORDINATED DELIVERY SYSTEMS.

PUBLIC HOUSING AUTHORITIES HAVE STRUGGLED WITH AVAILABLE BUT GENERALLY INADEQUATE, RESOURCES TO PROVIDE A RANGE OF SUPPORT SERVICES FOR THESE POOREST OF THE POOR FAMILIES LIVING IN THEIR DEVELOPMENTS.

AND THERE ARE SOME NOTABLE SUCCESSES. THE BEETHOVEN PROJECT IN CHICAGO AT THE ROBERT TAYLOR HOMES PROVIDES PRENATAL CARE, CHILD-CARE, PARENTING, AND PRE-SCHOOL TRAINING FOR ALL CHILDREN UNDER THE AGE OF 6. IT IS DEMONSTRATING THAT EARLY, CONCENTRATED ATTENTION TO CHILDREN IN POVERTY CAN MAKE A DIFFERENCE IN THEIR SELF-ESTEEM, MOTIVATION, AND SCHOOL PERFORMANCE.

THE JOB TRAINING PROGRAM OF THE HARTFORD HOUSING AUTHORITY, AND THE FAMILY DEVELOPMENT CENTER OF THE BALTIMORE AUTHORITY ARE OTHER EXAMPLES OF SUCCESS.

PART OF THE PROBLEM CONFRONTING PUBLIC HOUSING AGENCIES HAS BEEN THE WELL-INTENTIONED TARGETING BY CONGRESS OF HOUSING ASSISTANCE TO SERVE THE POOREST OF THE POOR, EXCLUSIVELY. AS A RESULT, THOSE FAMILIES WITH SOMEWHAT HIGHER INCOMES BETWEEN 50 TO 80 PERCENT OF THE MEDIAN, THE 'WORKING POOR' HAVE BEEN PRECLUDED FROM LIVING IN PUBLIC HOUSING, LEAVING THOSE BEHIND WITH NO ROLE MODELS TO EMULATE AND THE HOUSING AUTHORITIES WITH LIMITED RENTAL INCOME.

PUBLIC HOUSING HAS BECOME THE HOUSER OF LAST RESORT. PHAs KNOW, LOW INCOME RESIDENTS KNOW, SOCIAL SCIENTISTS KNOW, AND CONGRESS KNOWS THAT THIS IS A COUNTER-PRODUCTIVE POLICY FOCUSSED, AS IT IS, EXCLUSIVELY ON THE POOREST OF THE POOR. ECONOMIC AND RACIAL MAINSTREAMING TO SELF-SUFFICIENCY IS IMPOSSIBLE IN SUCH CIRCUMSTANCES.

WE DO NOT NEED TO RE-INVENT THE WHEEL IN FASHIONING PROGRAMS TO MEET THE HOUSING AND RELATED NEEDS OF LOW INCOME FAMILIES. WE DO NEED TO CREATE THE CIRCUMSTANCES IN WHICH FAMILIES CAN THRIVE, ACHIEVE ECONOMIC SECURITY, SELF-RELIANCE, HOPE AND A SENSE OF COMMUNITY.

THOSE CIRCUMSTANCES ARE ACHIEVED THROUGH CONCERTED EFFORTS OF A PANOPLY OF PUBLIC AND PRIVATE EFFORTS: CHURCHES; WELFARE AGENCIES; HEADSTART; EMPLOYMENT TRAINING AND PLACEMENT DEPARTMENTS; SCHOOLS; POLICE; FIRE; PUBLIC HEALTH CARE CENTERS; PRIVATE EMPLOYERS; JOB CREATION AND EXPANSION.

THE SUCCESSFUL PROGRAMS TOWARD SELF-SUFFICIENCY WHICH I HAVE JUST MENTIONED, ARE STILL SHORT-RANGE, DEPENDING ON WHAT LEVEL OF RESOURCES CAN BE PIECED TOGETHER ON A YEAR-TO-YEAR BASIS. THERE IS A NEED FOR A FIRMER, ON-GOING COMMITMENT OF SUPPORT SERVICES TARGETED TO PUBLIC HOUSING RESIDENTS.

HOUSING AND COMMUNITY DEVELOPMENT AGENCIES ARE FIELD-BASED WITH ON-SITE MANAGEMENT AND FACILITIES WHERE MANY OF THESE OUTREACH SERVICES CAN BE PROVIDED AND EXPANDED. OUR PRIMARY RESPONSIBLITY MUST CONTINUE TO BE MAINTAINING AND UPGRADING THE CURRENT PUBLIC HOUSING STOCK, REDUCING VACANCIES, AND BRINGING NEW UNITS ON-LINE THROUGH PURCHASE,LEASE, AND "RENT SUPPLEMENTS.

WE WILL CONTINUE TO WORK WITH THOSE OTHER SERVICE PROVIDERS I HAVE CITED TO BRING COORDINATED, CONCERTED RESOURCES TO THE POOR.

THE FEDERAL COMMITMENT TO THE PERFORMANCE FUNDING SYSTEM AND MODERNIZATION PROGRAM FOR PUBLIC HOUSING MUST CONTINUE IN ORDER FOR US TO DO OUR JOB.

THE RANGE OF INCOMES NEEDING TO BE SERVED MUST TAKE IN THOSE STRUGGLING TO GET ON THEIR FEET - UP TO 80 PERCENT OF THE AREA MEDIAN INCOME.

2. USING DEMONSTRATED LOCAL AND STATE CAPACITY IN A FLEXIBLE SYSTEM

ANY NEW APPROACH TO NATIONAL HOUSING NEED MUST BUILD ON THE EXISTING DEMONSTRATED CAPACITY AND TRACK RECORD OF LOCAL AND STATE GOVERNMENT. THEY AND THEIR LOCAL PARTNERS, BOTH PUBLIC AGENCIES AND PRIVATE ENTITIES, HAVE SHOWN REMARKABLE INGENUITY IN PATCHING TOGETHER FUNDING SOURCES, MANPOWER, VOLUNTEERED SERVICES AND FACILITIES.

LOCAL OFFICIALS HAVE DONE MORE WITH LESS DURING THE 1980'S DECADE OF FEDERAL NEGLECT AND ABANDONMENT. WITH REVENUE SHARING ENDED, AND THE FEDERAL COMMITMENT TO INCREASING THE SUPPLY OF AFFORDABLE HOUSING AT A STANDSTILL, LOCALITIES AND STATES HAVE FORMED UNIQUE PARTNERSHIPS TO FILL THE GAP USING THEIR LOCAL PUBLIC AGENCIES, CHURCHES, EMPLOYERS, FINANCIAL INSTITUTIONS, AND OTHER PRIVATE NON-PROFIT ORGANIZATIONS. (FOR EXAMPLE, MY OWN AGENCY, THE SAN FRANCISCO REDEVELOPMENT AUTHORITY HAS DEVELOPED ______UNITS, REDEVELOPED ______SQUARE FEET OF OFFICE & RETAIL SPACE).

WITH GOALS AND POLICY SET NATIONALLY, NEW LEGISLATION SHOULD BE BUILT ON THE DEMONSTRATED CAPACITY AT THE STATE AND LOCAL LEVEL. SUCH LEGISLATION SHOULD REAFFIRM THAT THE LOCALITY HAS THE BEST UNDERSTANDING AND EXPERTISE TO SOLVE LOCAL, UNIQUE PROBLEMS. LOCAL AGENCIES HAVE BEEN THE PRINCIPLE ACTORS IN FEDERAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS SINCE THE 1930'S.

3.LEVERAGING OTHER DOLLARS/RESOURCES THROUGH PARTNERSHIPS

LEVERAGING OTHER RESOURCES AND DOLLARS IS ESSENTIAL IN TODAY'S REAL WORLD OF BUDGET IMPACT CONCERNS AND BOTTOM LINES.

FEDERAL DOLLARS SHOULD BE CONTINGENT ON THE FOLLOWING CRITERIA:

- OTHER DOLLARS WILL BE GENERATED
- A DEMONSTRATED TRACK RECORD OF BUILDING, REHABBING, LEASING, AND MANAGING HOUSING IN A BUSINESS-LIKE WAY. IN ECONOMIC DEVELOPMENT, A TRACK RECORD OF ATTRACTING EMPLOYERS AND NEW JOBS GEARED TO LOWER INCOME INDIVIDUALS WITH FEDERAL FUNDS REPAID TO THE TREASURY OVER TIME THROUGH INCREASED PROPERTY AND INCOME TAX REVENUES
- AN ARRAY OF RESOURCES, BOTH PUBLIC AND PRIVATE BROUGHT TO BEAR IN A HOLISTIC APPROACH TO THE FAMILY IN NEED.

STATE AND LOCAL GOVERNMENTS HAVE DEMONSTRATED A TRACK RECORD OF DELIVERING BASIC SERVICES AND SHELTER IN PARTNERSHIP WITH THE FEDERAL GOVERNMENT, PRIVATE BUILDERS, PROPERTY MANAGERS, AND PRIVATE SERVICE PROVIDERS. IT IS THAT

DEMONSTRATED CREATIVITY IN MELDING A VARIETY OF RESOURCES THAT FUTURE FEDERAL POLICY SHOULD ENCOURAGE.

4. PRESERVING THE EXISTING LOW AND MODERATE INCOME HOUSING STOCK

I HAVE ALLUDED TO THE $75 BILLION FEDERAL INVESTMENT IN THE EXISTING PUBLIC HOUSING STOCK OF 1.4 MILLION UNITS AT AFFORDABLE RENTS. THIS EXISTING LOW INCOME HOUSING MUST BE MAINTAINED, MODERNIZED, AND PRESERVED.

A HUD-COMMISSIONED STUDY HAS IDENTIFIED THE MODERNIZATION NEEDS OF PUBLIC HOUSING AT $21 BILLION. NAHRO BELIEVES $2 BILLION PER YEAR FOR 10 YEARS IS THE MINIMUM NEEDED TO ELIMINATE THIS BACKLOG.

IN ADDITION, EXPIRING 20 YEAR CONTRACTS FOR MODERATE INCOME HOUSING UNDER THE SEC. 236 AND 221(d)(3) PROGRAMS MAY RESULT IN THE LOSS OF AS MANY AS 100,000 HOUSING UNITS. EQUALLY TROUBLING TO THOSE OF US WHO ADMINISTER THE SEC. 8 RENTAL ASSISTANCE PROGRAM, IS THE NUMBER OF HOUSEHOLDS AND HOUSING UNITS WHERE THESE 5 AND 15 YEAR CONTRACTS WILL EXPIRE.

MR. GRADY WILL EXPLAIN THE FULL DIMENSIONS AND RAMIFICATIONS BY THE END OF THIS CENTURY OF THESE TWO EXPIRING FEDERAL COMMITMENTS.

I WOULD JUST NOTE FOR THE RECORD THAT HUD'S OWN ESTIMATE FOR FISCAL YEAR 1991 IS A PROJECTED LOSS OF 295,906 SECTION 8 EXISTING CONTRACTS AND VOUCHERS AT A REFUNDING COST (WITH 5 YEAR VOUCHERS) OF $8.5 BILLION. THAT FIGURE, MR. CHAIRMAN, IS MORE THAN HALF THE TOTAL AUTHORIZATION LEVEL PROVIDED FOR FISCAL 1989 IN THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987.

ONE OF THE OPTIONS YOUR SUBCOMMITTEE SHOULD CONSIDER IS A PROGRAM FOR PHAs TO ACQUIRE THOSE BUILDINGS IN WHICH OWNERS DECLINE TO CONTINUE WITH ASSISTED HOUSING CONTRACTS." SUCH A PROPOSAL IS DESCRIBED IN OUR KEEPING THE COMMITMENT DOCUMENT SUBMITTED TO THE SUBCOMMITTEE.

5. MAKING HOUSING AFFORDABLE THROUGH SUPPLY AS WELL AS DEMAND STRATEGIES

THE DOLLAR AMOUNTS WHICH I HAVE CITED ARE SIGNIFICANT AMOUNTS SIMPLY TO KEEP WHAT WE'VE GOT IN GOOD SHAPE. WHAT MUST BE BORNE IN MIND, HOWEVER, IS THE DYNAMIC OF SUPPLY AND DEMAND IN THE PRIVATE HOUSING MARKET. AN ESTIMATED 200,000 LOW-RENT UNITS ARE LOST FROM THE PRIVATE, UNSUBSIDIZED INVENTORY EACH YEAR DUE TO RAZINGS, CONVERSIONS, RENT INCREASES, OR ABANDONMENT.

AT THE SAME TIME, A GROWING LEGION OF AMERICAN FAMILIES AND SENIOR CITIZENS ARE SLIPPING INTO HOMELESSNESS, UNABLE TO COMPETE IN THE PRIVATE MARKET FOR HOUSING THEY CAN AFFORD.

IN THE STATE OF THE NATION'S HOUSING JUST RELEASED BY THE HARVARD JOINT CENTER FOR HOUSING STUDIES, THE STARK CONTRAST OF THE RICH GETTING RICH AND THE POOR GETTING POORER IS DOCUMENTED.

THAT REPORT NOTES "FROM 1983 TO 1987,... THE NUMBER OF POVERTY-LEVEL RENTER HOUSEHOLDS INCREASED FROM 7.2 MILLION TO 7.5 MILLION....

"THE REAL ANNUAL INCOMES OF RENTERS, HAS DECLINED FROM AN AVERAGE $18,000 IN 1982 TO $14,000 IN 1986."

THE REPORT CONTINUES "FROM 1973 TO 1986, THE REAL INCOME OF YOUNG SINGLE-PARENT RENTER HOUSEHOLDS WITH CHILDREN FELL ... FROM $10,965 TO $7,271 IN 1987....

"THE RENT BURDEN FOR YOUNG SINGLE-PARENT FAMILIES WITH CHILDREN INCREASED FROM 34.9 PERCENT IN 1974 TO 58.4 PERCENT IN 1987."

WHILE REAL INCOMES WERE DECREASING AND RENT BURDENS WERE INCREASING, THE SUPPLY OF AFFORDABLE RENTAL HOUSING WAS DISAPPEARING AT AN ALARMING RATE.

"... THE NUMBER OF UNITS RENTING FOR LESS THAN $300 PER MONTH DROPPED BY NEARLY ONE MILLION BETWEEN 1974 AND 1983..."

AND WHILE GROSS NATIONAL NUMBERS APPEAR TO SHOW AN INCREASE IN RENTAL HOUSING, LITTLE OF IT RENTS FOR LESS THAN $300. THE PROBLEM IS COMPOUNDED BY THE MISMATCH OF SUPPLY AND DEMAND IN LOCAL MARKET AREAS. AS THE HARVARD REPORT NOTES, "OBVIOUSLY, THE INCREASE OF VACANT RENTAL APARTMENTS IN HOUSTON DOES LITTLE TO CHECK RENT INCREASES IN SAN FRANCISCO OR BOSTON."

DESPITE OUR OFT-REPEATED NATIONAL COMMITMENT TO A DECENT HOME IN A SUITABLE LIVING ENVIRONMENT FOR EVERY AMERICAN, FEDERAL WITHDRAWAL OF SUPPORT,TAX AND ECONOMIC POLICIES HAS RESULTED IN AN INCREASE IN LOW INCOME HOUSEHOLDS. BETWEEN 1974 AND 1987, THE NUMBER OF $5000 TO $10,000 INCOME HOUSEHOLDS NOT RECEIVING RENTAL ASSISTANCE GREW FROM 3.8 MILLION TO 4.5 MILLION.

THE HARVARD REPORT CONCLUDES,"TARGETING OF RESOURCES ALONE WILL BE INSUFFICIENT TO DEAL WITH THE HOUSING PROBLEMS OF THE RENTER HOUSEHOLDS LIVING IN POVERTY: EVEN IF ALL 3.8 MILLION SUBSIDIZED UNITS WERE AVAILABLE TO POVERTY-LEVEL HOUSEHOLDS, 3.7 MILLION POVERTY LEVEL RENTERS STILL HAVE TO FIND AFFORDABLE PRIVATELY-OWNED NONSUBSIDIZED HOUSING."

NEW NATIONAL HOUSING LEGISLATION, MR. CHAIRMAN, MUST BE FLEXIBLE AND PROVIDE A MIX OF BOTH DEMAND AS WELL AS SUPPLY SUBSIDIES WHICH LOCALITIES CAN USE TO MEET THEIR PARTICULAR RENTAL MARKET NEEDS. NEW ASSISTED HOUSING CONSTRUCTION MUST BE RESTORED AS A NATIONAL PRIORITY.

6.KEEPING THE FEDERAL COMMITMENT TO AFFORDABLE HOUSING IN DECENT COMMUNITIES

THE NEGLECT OF OUR NATION'S SHELTER NEEDS HAS GIVEN RISE TO HOMELESSNESS -- THE MOST VISIBLE RESULT OF A SHUT-DOWN IN HOUSING PRODUCTION PROGRAMS. FAMILIES HAVE BEEN FORCED TO DOUBLE UP, SPLIT UP, OR GO HOMELESS IN THE FACE OF A 75 PERCENT REDUCTION IN FUNDING OF ASSISTED HOUSING PROGRAMS SINCE 1981.

THE FEDERAL HOUSING COMMITMENT MUST BE RESTORED -- AND RESTORED FOR THE LONG-TERM. THE CONTINUED SHORTENING OF THE TERM OF ASSISTANCE HAS ADDED A NEW AND VOLATILE ELEMENT TO THE PICTURE. THERE IS NO LONGER THE FAITH THE FEDERAL GOVERNMENT WILL DELIVER ON ITS LONG-STATED SOCIAL COMPACT.

RESIDENTS OF PUBLIC AND OTHER ASSISTED HOUSING ARE INSECURE. BUILDING OWNERS WITH SEC. 8 ASSISTED UNITS ARE WAITING FOR THE DAY THEIR SEC. 8 COMMITMENT EXPIRES AND IS NOT RENEWED.

CHAIRMEN CRANSTON, IS THIS THE AMERICA OF WHICH WE CAN BE PROUD? ...WHICH OTHER WORLD NATIONS LOOK TO AS A LEADER?

THE NATIONAL SECURITY OF THE UNITED STATES RESTS AS MUCH WITH THE STABILITY AND ECONOMIC SECURITY OF AMERICAN FAMILIES AS IT DOES WITH ARMAMENTS. WE CANNOT BE A STRONG COUNTRY IF IN ADDITION TO BEING ILL-HOUSED, ONE-SIXTH OF OUR YOUNG PEOPLE CANNOT READ AND WRITE, LACK JOB SKILLS, AND RESORT TO CRIME AND DRUGS TO MAKE THEIR WORLD GO AWAY. PART OF THAT NATIONAL SECURITY IS A DECENT, AFFORDABLE HOME IN A STABLE NEIGHBORHOOD.

WE HAVE TRIED TO LAY OUT FOR YOU HERE THE TRENDS AS WE SEE THEM AND THE DYNAMICS AT WORK IN THE MARKET PLACE. WHAT IS NEEDED NOW IS A WILL TO ACT -- TO RESTORE THE FEDERAL COMMITMENT TO DECENT, AFFORDABLE HOUSING IN STABLE NEIGHBORHOODS. AS I STATED AT THE BEGINNING OF MY REMARKS, WE HAVE SUBMITTED TO THE SUBCOMMITTEE STAFF DETAILED WORKING PAPERS DESCRIBING SEVERAL PROGRAMS WHICH WILL RESTORE THAT FEDERAL COMMITMENT.

THANK YOU FOR THE OPPORTUNTITY TO BE HERE.

Senator **Cranston**. Bill.

Representative **Dreier**. Mr. Chairman?

Senator **Cranston**. Yes.

Representative **Dreier**. If I could just interject for a moment. I have a luncheon speech in downtown Los Angeles, and I'm going to have to excuse myself. I apologize to the other witnesses on this panel and especially to the homeless and those on the next panel. I assure you that I will look closely at the testimony which is going to be provided.

Thank you very much, again, Mr. Chairman, for including me.

Senator **Cranston**. Thank you. Thanks for coming.

[After a pause] Bill.

STATEMENT OF WILLIAM COTTRELL, EXECUTIVE DIRECTOR, CLARK COUNTY HOUSING AUTHORITY

Mr. **Cottrell**. Mr. Chairman, I'm speaking today as President of the Executive Director's Association of Northern California and Nevada, which includes public housing authorities who provide assistance to some 91,000 low-income families.

I want to speak first on the question of Federal commitment and use of local agencies. If we are to have a truly effective, responsive, comprehensive long-term national housing policy, we must have not only a national commitment but national support. During the past 8 years when we've had the great cuts in appropriations, most States have not developed the capacity nor provided the resources to supply any appreciable number of rental housing units. The private sector hasn't been able to pick up that slack, either. This leads us to question whether or not the states would be willing or able to match funds in the amount of $1.5 billion, as is proposed in the recommendation.

A truly national commitment and allocation of resources is necessary to assure a meaningful level of support in all regions of the country.

From the beginning of these assisted rental housing programs going back over more than 50 years, we,ve had a partnership between Federal and local agencies. Public housing authorities generally have broad powers of eminent domain, to issue tax-extempt bonds, to participate in all phases of development, rehabilitation and management of housing. As public entities with governing bodies appointed by elected public officials, local authorities are accountable for their stewardship of housing programs as a part of the public trust. Such agencies have developed a broad range of experience. They need no seed money. They have no start-up time or costs, and they need no learning period in which to become proficient.

Local authorities, particularly in the West, have demonstrated that they are capable, adaptable, innovative and able to work with both public and private resources. Local public entities have combined with profit and non-profit groups to pool resources which individually were not adequate. Included here are such devices as the use of mortgage credit certificates, creation of new single family home ownership opportunities, establishment of joint ventures, and local authorities are now working with others to make use of the tax credit program recently established by Congress.

In short, Mr. Chairman, there is already in place a delivery system for afforable rental housing which is flexible, adaptable and legally authorized to perform as it has done for more than fifty years.

I want to emphasize also the need for program flexibility. All housing is local. Communities vary in needs, priorities and resources. For this reason, a good mix of public and private, supply and market, non-profit and profit-making programs, as well as variable financing mechanisms are necessary to assure adequate housing at affordable prices.

In some housing markets, the non-availability of affordable housing requires that production programs be utilized. In other markets, where sufficient private housing is available, the Housing Assistance Payments Programs are workable.

The point here is that we need a mix of production and market programs, including the existing proven effective programs which are being allowed to die on the vine. We need conventional public housing, most of which—stereotypes to the contrary notwithstanding—is well-conceived, well-built and well-managed. We need a flexible market rental program combining effective elements of the Section 8 certficate and voucher programs. And we need development by non-profit and profit-making sectors.

In the interests of time, I'm not going to go into details that I had hoped to cover concerning two special needs household categories, one of which is the eldery households who, according to a study made last year by the Urban Institute, by the end of this century 50 percent of all elderly households will be older elderly, that is, 75 years and above. And I think there's some important implications in that change in demography.

The other category is that of non husband/wife families with children. These families are projected to grow by 50 percent by the end of this century. Some of these will be headed by elderly women, but the majority will be headed by women between the ages of 30 and 55.

These multi-problem families need a range of supporting services in order to take charge of their lives. We believe the subcommittees should consider an integrated housing and supportive service system geared to the needs of single parent households with children. Such an effort is particularly timely now with the possibility of the passage of welfare reform legislation which will provide a structured system of incentives and assistance to move families on public assistance to independent living. There's a special opportunity now to target public assistance to families in assisted housing as a transition to new and more independent housing settings.

Relating to the frail elderly, we strongly urge the development of integrated assistance systems with a congregate housing component. And I would refer you to the study of the House Select Committee on the Aging, which recently has prepared a report which has studied the operation of the congregate facilities over the past 10 years in both public housing and the Section 202 program. The aging in place in federally-assisted housing is of particular concern in public housing which now serves almost 600,000 elderly households. It's estimated that there are a total of 468,000 elderly persons in all federally-assisted housing that are currently at risk of institutionalization due to frailty.

In conclusion, Mr. Chairman, we do not need to reinvent the wheel in providing programs to meet the needs of low-income families. We do need a national commitment to policies which will bring together the public, private and other resources necessary to achieve these goals, including resources which only the national government can provide.

I want to thank you for the opportunity to present these views, and we have written this in some detail and that information is available.

Senator CRANSTON. Thank you very much, Bill.

[The complete prepared statement of Mr. Cottrell follows:]

STATEMENT
OF
WILLIAM F. COTTRELL
EXECUTIVE DIRECTOR

HOUSING AUTHORITY OF THE COUNTY OF CLARK, NEVADA
LAS VEGAS, NEVADA

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BEFORE A JOINT HEARING OF THE
UNITED STATES SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
AND THE
UNITED STATES HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON
HOUSING AND COMMUNITY DEVELOPMENT

* * * * * * * *

APRIL 7, 1988

LOS ANGELES, CALIFORNIA

MR. CHAIRMAN, WE APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS JOINT HEARING TO DISCUSS A MOST URGENT ISSUE -- THE PROVISION OF ASSISTED HOUSING FOR MILLIONS OF LOW- AND MODERATE-INCOME AMERICAN HOUSEHOLDS WHO CANNOT OTHERWISE AFFORD SAFE AND SUITABLE HOUSING, AND WHO DO NOT HAVE ACCESS TO SUPPORTIVE SERVICES NECESSARY TO PERMIT THEM TO LEAD DECENT LIVES.

MY NAME IS WILLIAM F. COTTRELL, AND I AM THE EXECUTIVE DIRECTOR OF THE HOUSING AUTHORITY OF THE COUNTY OF CLARK, LOCATED IN SOUTHERN NEVADA. OUR AGENCY PROVIDES HOUSING ASSISTANCE TO SOME 2,300 ELIGIBLE LOW-INCOME FAMILIES, INCLUDING MORE THAN 700 COVENTIONAL LOW-RENT PUBLIC HOUSING UNITS (OF WHICH 30% ARE OCCUPIED BY ELDERLY PERSONS) AND 1,300 HOUSING ASSISTANCE PAYMENTS CERTIFICATES AND VOUCHERS IN THE PRIVATE SECTOR.

I AM SPEAKING TODAY NOT ONLY FOR NEEDS IN OUR SPECIFIC AREA, BUT ALSO AS PRESIDENT OF THE EXECUTIVE DIRECTORS' ASSOCIATION OF NORTHERN CALIFORNIA/NEVADA, WHICH INCLUDES 55 PUBLIC HOUSING AUTHORITIES PROVIDING ASSISTANCE TO SOME 90,371 FAMILIES, AND ALSO AS A MEMBER AND NATIONAL COMMITTEE MEMBER OF N.A.H.R.O.

WE APPLAUD THE LEADERSHIP OF BOTH SUBCOMMITTEES SPONSORING THIS JOINT HEARING ON "A NEW NATIONAL HOUSING POLICY," AND PARTICULARLY ITS RECOGNITION OF THE NEED FOR SUPPORTIVE HOUSING FOR HOUSEHOLDS WITH SPECIAL NEEDS. WE HOPE THAT THE CONCERNS BEING RAISED AT THIS HEARING WILL RESULT IN CONCRETE LEGISLATIVE ACTION IN THE NEAR FUTURE. THE FACT THAT THIS IS A BI-PARTISAN AS WELL AS A BI-CAMERAL EFFORT BODES WELL FOR THE SUCCESS OF THIS EFFORT.

1. NATIONAL HOUSING POLICIES - GENERAL CONSIDERATIONS.

FEDERAL COMMITMENT AND INVOLVEMENT THROUGH LOCAL PUBLIC AGENCIES.

IF WE ARE ~~TO HAVE~~ TRULY EFFECTIVE, RESPONSIVE, COMPREHENSIVE LONG-TERM NATIONAL HOUSING POLICIES FOR LOW-INCOME CITIZENS, WE MUST HAVE NOT ONLY A NATIONAL COMMITMENT BUT NATIONAL SUPPORT - FINANCIAL AND OTHER. DURING THE PAST EIGHT YEARS, WHEN FEDERAL APPROPRIATIONS HAVE BEEN SLASHED SOME 70%, NEITHER THE STATE, LOCALITIES NOR THE PRIVATE SECTOR HAVE BEEN ABLE TO PICK UP MUCH OF THE SLACK. WITH A FEW NOTABLE EXCEPTIONS (CALIFORNIA, MASSACHUSETTS, NEW YORK AND MICHIGAN COME TO MIND) MOST STATES HAVE NOT SEEN PROVISION OF LOW-INCOME ASSISTED RENTAL HOUSING AS A MAJOR PRIORITY, AND THEY HAVE NOT DEVELOPED THE CAPACITY NOR PROVIDED THE RESOURCES TO SUPPLY ANY APPRECIABLE NUMBER OF SUCH RENTAL HOUSING UNITS FOR LOW-AND MODERATE-INCOME FAMILIES.

HAVING A NATIONAL POLICY OF PROVIDING SAFE, DECENT AND AFFORDABLE HOUSING IN SUITABLE LIVING ENVIRONMENTS IS MEANINGLESS FOR THE POOR UNLESS PROCESSES AND FUNDING MECHANISMS ARE MADE AVAILABLE. A TRULY NATIONAL COMMITMENT AND ALLOCATION OF RESOURCES IS NECESSARY TO ENSURE A MEANINGFUL LEVEL OF SUPPORT IN ALL REGIONS OF THIS NATION -- PARTICULARLY GIVEN THE VARYING ABILITIES AND WILLINGNESS OF STATES AND LOCALITIES TO GENERATE THEIR OWN ACTIONS AND RESOURCES (PUBLIC AND PRIVATE) TO MEET THIS GROWING CONCERN.

FROM THE BEGINNING OF RENTAL HOUSING ASSISTANCE MORE THAN 50 YEARS AGO, THERE HAS BEEN A PARTNERSHIP BETWEEN THE FEDERAL GOVERNMENT AND LOCAL AGENCIES. PUBLIC HOUSING AGENCIES, ORGANIZED UNDER STATE LEGISLATION, GENERALLY HAVE BROAD POWERS: THEY HAVE THE POWER OF EMINENT DOMAIN, CAN ISSUE TAX-EXEMPT BONDS, AND CAN PARTICIPATE IN THE DEVELOPMENT, REHABILITATION, OPERATION AND MANAGEMENT OF HOUSING FOR THE POOR. IN NEVADA, FOR INSTANCE, LOCAL AUTHORITIES ARE "BODIES POLITICAL AND CORPORATE," WITH ALL THE POWERS OF MUNICIPAL CORPORATIONS OTHER THAN THE POWER TO IMPOSE TAXES OR LEVY SPECIAL ASSESSMENTS.

AS PUBLIC ENTITIES, WITH GOVERNING BOARDS APPOINTED BY ELECTED PUBLIC OFFICIALS, LOCAL AUTHORITIES ARE ACCOUNTABLE FOR THEIR STEWARDSHIP OF HOUSING PROGRAMS AS A PART OF THE "PUBLIC TRUST". SUCH AGENCIES HAVE DEVELOPED A BROAD RANGE OF EXPERIENCE, NEED NO "SEED" MONEY, NO START-UP TIME AND COSTS, AND NO LEARNING PERIOD IN WHICH TO BECOME PROFICIENT.

LOCAL AUTHORITIES ACROSS THE COUNTRY, AND PARTICULARLY IN THE WEST, HAVE DEMONSTRATED THAT THEY ARE CAPABLE, ADAPTIVE, INNOVATIVE, AND ABLE TO WORK WITH BOTH PUBLIC AND PRIVATE RESOURCES TO DEVELOP HOUSING FOR THE POOR. EVEN A RELATIVELY SMALL AGENCY SUCH AS OUR OWN HAS BEEN ABLE TO USE SIX DIFFERENT TYPES OF SECTION 8 FUNDING (CERTIFICATES, VOUCHERS, NEW CONSTRUCTION, MODERATE REHABILITATION, RENTAL REHABILITATION, AND SECTION 202/8 FOR THE ELDERLY). IN ADDITION WE HAVE ISSUED BONDS FOR CONSTRUCTION OF PRIVATELY-OWNED SECTION 8 HOUSING, WE HAVE DEVELOPED A SENIOR CITIZEN MOBILE HOME PARK USING ONLY LOCAL RESOURCES, AS WELL AS 124 UNITS OF NON-FEDERALLY ASSISTED MULTI-FAMILY HOUSING.

LOCAL PUBLIC ENTITIES HAVE COMBINED WITH FOR-PROFIT AND NON-PROFIT GROUPS TO COMBINE RESOURCES WHICH, INDIVIDUALLY, WERE NOT ADEQUATE TO PRODUCE THE PRODUCT; INCLUDED ARE THE USE OF MORTGAGE CREDIT CERTIFICATES, CREATION OF NEW SINGLE-FAMILY HOME OWNERSHIP OPPORTUNITIES, AND ESTABLISHMENT OF JOINT VENTURES WITH PRIVATE DEVELOPERS AND OTHERS. LOCAL AUTHORITIES ARE NOW INVOLVED IN WORKING WITH OTHERS TO CREATE LOW-INCOME RENTAL HOUSING USING THE TAX CREDIT PROGRM RECENTLY ESTABLISHED BY CONGRESS.

IN SHORT, MR. CHAIRMAN, THERE IS ALREADY IN PLACE A DELIVERY SYSTEM FOR AFFORDABLE RENTAL HOUSING WHICH IS FLEXIBLE, ADAPTABLE, AND LEGALLY AUTHORIZED TO PERFORM -- AS IT HAS DONE LAREGLY IN ADMIRABLE FASHION FOR MORE THAN 50 YEARS.

PROGRAM FLEXIBILITY

"ALL HOUSING IS LOCAL." COMMUNITIES VARY IN HOUSING NEEDS, PRIORITIES AND RESOURCES. FOR THIS REASON, MR. CHAIRMAN, A GOOD MIX OF PUBLIC/PRIVATE, SUPPLY/MARKET, NON-PROFIT/PROFIT MAKING PROGRAMS AS WELL AS VARIABLE FINANCING MECHANISMS ARE NECESSARY TO ASSURE ADEQUATE HOUSING AT AFFORDABLE PRICES FOR LOW-INCOME AMERICANS.

AS AN INDICATION OF THE MAGNITUDE OF THE PROBLEM, AN ESTIMATED 200,000 LOW-RENT UNITS ARE LOST FROM THE INVENTORY EACH YEAR DUE TO CONVERSIONS, RAZING OF BUILDINGS, RENT INCREASES, AND ABANDONMENT. AT THE SAME TIME, A GROWING LEGION OF AMERICAN FAMILIES ARE SLIPPING INTO HOMELESSNESS, UNABLE TO COMPETE IN THE PRIVATE MARKET FOR HOUSING THEY CAN AFFORD.

A DIFFICULTY WITH ONE OF THE CURRENT MAJOR PROGRAMS -- HOUSING ASSISTANCE PAYMENTS -- IS THAT CERTIFICATES ARE GUARANTEED ONLY FOR A MAXIMUM OF 15 YEARS AND VOUCHERS ONLY FOR 5 YEARS WHILE CONVENTIONAL PUBLIC HOUSING IS GUARANTEED AVAILABLE FOR A MINIMUM OF 40 YEARS.

IN SOME HOUSING MARKETS, THE UNAVAILABILITY OF AFFORDABLE HOUSING FOR LOW-INCOME FAMILIES REQUIRES THAT PRODUCTION PROGRAMS BE UTILIZED; IN OTHER MARKETS, WHERE SUFFICIENT PRIVATE HOUSING IS AVAILABLE, THE HOUSING ASSISTANCE PAYMENTS PROGRAMS ARE WORKABLE. HOWEVER, THE LATTER SHOULD BE GUARANTEED AND FUNDED FOR A LONGER PERIOD THAN AT PRESENT.

MR. CHAIRMAN, THE POINT HERE IS THAT WE NEED A "MIX" OF PRODUCTION AND MARKET PROGRAMS -- INCLUDING THE EXISTING, PROVEN, EFFECTIVE PROGRAMS WHICH ARE BEING ALLOWED TO DIE ON THE VINE. WE NEED CONVENTIONAL PUBLIC HOUSING (MOST OF WHICH, STEREOTYPES TO THE CONTRARY NOTWITHSTANDING: IS WELL CONCEIVED, WELL BUILT, AND WELL MANAGED); WE NEED A FLEXIBLE MARKET RENTAL PROGRAM, COMBINING EFFECTIVE ELEMENTS OF THE SECTION 8 CERTIFICATE AND VOUCHER PROGRAMS; AND WE NEED DEVELOPMENT BY NON-PROFIT AND PROFIT-MAKING SECTORS.

II. NATIONAL HOUSING POLICIES - SPECIAL NEEDS HOUSEHOLDS

IN 1987, THE URBAN INSTITUTE PREPARED A STUDY ON "HOUSING NEEDS TO THE YEAR 2000" (THE SECTION ON 'THE CHANGING DEMOGRAPHIC PROFILE OF U.S. HOUSEHOLDS' IS ATTACHED HERE AS EXHIBIT A). A PRIME AREA OF CONCERN IN THIS GROWTH IS A CONTINUING, SIGNIFICANT CHANGE IN THE COMPOSITION OF AMERICAN HOUSEHOLDS, INCLUDING THOSE OF LOW INCOME:

* SINGLE INDIVIDUALS WILL BE THE FASTEST GROWING TYPE, THEIR NUMBERS INCREASING BY ALMOT 75%: BY THE END OF THE CENTURY, THEY WILL INCREASE FROM LESS THAN 25% TO MORE THAN 30% OF ALL HOUSEHOLDS.

- ELDERLY HOUSEHOLDS WILL AGE; IN 1980, ABOUT ONE-THIRD OF ELDERLY HOUSEHOLDS WERE HEADED BY A PERSON 75 OR OLDER, BUT BY THE END OF THE CENTURY, ABOUT 50% OF ALL ELDERLY HOUSEHOLDS WILL BE "OLDER ELDERLY." AT THE SAME TIME THE SHARE OF "YOUNG ELDERLY" (65 TO 74) WILL DECLINE.

- NON-HUSBAND/WIFE FAMILIES WITH CHILDREN WILL GROW BY ALMOST 50%; SOME OF THESE WILL BE HEADED BY ELDERLY PEOPLE, BUT THE MAJORITY WILL BE HEADED BY WOMEN BETWEEN 30 and 55.

WHILE THESE AND OTHER CATEGORIES OF LOW-INCOME PERSONS DESERVE ATTENTION, I WOULD LIKE TO FOCUS ON THE NEEDS OF SINGLE-PARENT FAMILIES AND THE FRAIL ELDERLY.

FEMALE-HEADED HOUSEHOLDS.

MR. CHAIRMAN, WHILE HOUSING SUPPLIERS WILL RESPOND REASONABLY PROMPTLY TO THE CHANGING DEMANDS OF AFFLUENT HOUSEHOLDS, WE BELIEVE THAT MANY PEOPLE WITH LIMITED INCOMES WILL ENCOUNTER INCREASED PROBLEMS IN OBTAINING AFFORDABLE HOUSING. A LARGE SHARE OF FEMALE-HEADED HOUSEHOLDS CONFRONT THE TRADITIONAL HOUSING PROBLEMS OF PHYSICAL INADEQUACY, CROWDING, AND EXCESSIVE COST BURDEN.

BOTH FEMALE-HEADED AND ELDERLY HOUSEHOLDS ALREADY HAVE TROUBLE FINDING SUITABLE, AFFORDABLE HOUSING UNITS; THE PRESSURES FOR HOUSING ASSISTANCE TAILORED TO THE REQUIREMENTS OF THESE TWO CATEGORIES OF HOUSEHOLDS WILL BECOME CONSIDERABLY MORE URGENT BY THE END OF THE NEXT DECADE.

TURNOVER OF PUBLICLY-ASSISTED UNITS AS FAMILIES MOVE "UP AND OUT" INTO THE PRIVATE MARKET RESULTS IN AN AVERAGE TURNOVER OF 30% PER YEAR. YET, FOR MANY RESIDENTS, ADDITIONAL RESOURCES ARE NECESSARY IF THEY ARE TO ACHIEVE SELF-RELIANCE. AVERAGE FAMILY INCOMES ARE VERY LOW -- LESS THAN 50% OF THE AREA MEDIAN INCOME, OR ABOUT $6,500. MANY ARE SINGLE-PARENT FAMILIES WITH LIMITED EDUCATION, JOB SKILLS, AND EARNED INCOME.

NEARLY ONE-MILLION CHILDREN FAIL TO COMPLETE THEIR EDUCATION EACH YEAR. MARGINALLY LITERATE, THEY ARE OFTEN UNEMPLOYABLE AND AT RISK OF SUCCUMBING TO DRUG ABUSE AND CRIME. EACH CLASS OF DROPOUTS COSTS OUR NATION ABOUT $240 BILLION IN LOST WAGES AND UNPAID TAXES DURING THEIR LIFETIMES.

THESE MULTI-PROBLEM FAMILIES NEED A RANGE OF SUPPORTIVE SERVICES IN ORDER TO TAKE CHARGE OF THEIR LIVES: CHILD CARE SERVICES, EARLY CHILDHOOD EDUCATION, HIGH SCHOOL EQUIVALENCY EDUCATION, JOB TRAINING AND PLACEMENT, PHYSICAL AND MENTAL HEALTH CARE, PARENTING EDUCATION, AND ENGLISH AS A SECOND LANGUAGE. THESE NEEDS CANNOT BE MET UNLESS FUNDAMENTAL CHANGES ARE MADE TOWARD COORDINATED DELIVERY OF HOUSING, JOBS, AND HUMAN DEVELOPMENT SERVICES.

PUBLIC HOUSING AGENCIES HAVE FEW, IF ANY, RESOURCES TO PROVIDE SUPPORT SERVICES LEADING TO FAMILY INDEPENDENCE. MR. CHAIRMAN, WE BELIEVE THAT THE SUBCOMMITTEES SHOULD CONSIDER AN INTEGRATED HOUSING AND SUPPORTIVE SERVICE SYSTEM GEARED TO THE NEEDS OF SINGLE-PARENT HOUSEHOLDS WITH CHILDREN. SUCH AN EFFORT IS PARTICULARLY TIMELY WITH THE POSSIBILITY OF THE PASSAGE OF "WELFARE REFORM" LEGISLATION, PROVIDING FOR A STRUCTURED SYSTEM OF INCENTIVES AND ASSISTANCE TO MOVE FAMILIES ON PUBLIC ASSISTANCE TO INDEPENDENT

LIVING. THERE IS A SPECIAL OPPORTUNITY NOW TO TARGET PUBLIC ASSISTANCE TO FAMILIES IN ASSISTED HOUSING, AS A TRANSITION TO NEW AND MORE INDEPENDENT HOUSING SETTINGS.

WE URGE THE SUBCOMMITTEES TO EXPLORE THESE NEW RELATIONSHIPS TOWARD THE DEVELOPMENT OF A MORE INTEGRATED APPROACH TO THE NEEDS OF SINGLE-PARENT HOUSEHOLDS. WE RECOMMEND THAT THE SUBCOMMITTEES URGE THE ACTIVATION OF THE HUD RESEARCH PROGRAM ADOPTED IN 1970 (SECTION 507 OF THE HOUSING AND URBAN DEVELOPMENT ACT) WHICH AUTHORIZES SPECIAL DEMONSTRATIONS "TO DETERMINE THE HOUSING DESIGN, HOUSING STRUCTURE, AND HOUSING-RELATED FACILITIES AND AMENITIES" MOST EFFECTIVE OR APPROPRIATE TO MEET THE NEEDS OF SINGLE-PARENT HOUSEHOLDS, ATTACHED AS EXHIBIT B.

THE FRAIL ELDERLY.

MR. CHAIRMAN, IT IS INCREASINGLY APPARENT THAT CONGREGATE HOUSING SERVICES, WITH TARGETED SUPPORT SERVICES, SHOULD BE A MAJOR COMPONENT OF FUTURE HOUSING ASSISTANCE FOR THE FRAIL ELDERLY, WHO REQUIRE SOME ASSISTANCE TO REMAIN INDEPENDENT, BUT DO NOT REQUIRE INSTITUTIONAL CARE. THE EXPERIENCE OF THE HUD CONGREGATE HOUSING SERVICES PROGRAM, CARRIED OUT BY 31 HOUSING AGENCIES AND 30 SECTION 202 HOUSING SPONSORS SINCE 1978, CLEARLY DOCUMENTS THE SUCCESS OF PROVIDING A SELECTED PACKAGE OF SUPPORT SERVICES TO ENABLE HOUSEHOLDS TO RETAIN INDEPENDENT LIVING. THE RECENTLY-ISSUED REPORT ON THIS PROGRAM BY THE SUBCOMMITTEE OF THE HOUSE SELECT COMMITTEE ON AGING STRONGLY URGES THE EXPANSION OF THIS CONCEPT AS A MAJOR COMPONENT OF FUTURE

ASSISTANCE POLICY. THE REPORT NOT ONLY DOCUMENTS COST SAVINGS OF THE CONGREGATE HOUSING APPROACH OVER INSTITUTIONAL CARE, BUT IT CLEARLY DEMONSTRATES THE ENRICHED LIVING OPPORTUNITIES FOR HOUSEHOLDS THAT ARE SERVED.

SIGNIFICANTLY, THE HOUSE REPORT SEES THE CONGREGATE HOUSING MODEL AS A KEY COMPONENT OF A LONG-TERM POLICY FOR OLDER AMERICANS, AND URGES AN INTEGRATED POLICY THAT LINKS AN EXPANSION OF THIS MODEL WITH OTHER LONG-TERM CARE ASSISTANCE. THIS CLEARLY INVOLVES THE AVAILABILITY OF MAJOR FEDERAL ASSISTANCE PROGRAMS, SUCH AS MEDICAID, TO THE FRAIL ELDERLY LIVING IN LOWER-INCOME CONGREGATE HOUSING, AS WELL AS TARGETING SUPPORT SERVICES TO ASSIST THEM IN REMAINING INDEPENDENT AS LONG AS POSSIBLE. (THE USE OF MEDICAID IN NON-INSTITUTIONAL SETTINGS IS NOW AVAILABLE ONLY ON A "WAIVER" BASIS). THE PORTION OF THE HOUSE REPORT ON 'THE EVOLUTION OF FEDERAL HOUSING POLICY' AND 'THE CONVERGENCE OF CONGREGATE HOUSING WITH LONG-TERM POLICY' IS ATTACHED AS EXHIBIT C.

MR. CHAIRMAN, WE STRONGLY URGE THE DEVELOPMENT OF INTEGRATED ASSISTANCE SYSTEMS, WITH A CONGREGATE HOUSING COMPONENT, TO SERVE THE INCREASING NUMBER OF FRAIL ELDERLY AND HANDICAPPED PERSONS NOW "AGING IN PLACE" IN FEDERALLY ASSISTED HOUSING. THIS IS PARTICULARLY TRUE IN PUBLIC HOUSING, WHICH NOW SERVES ALMOST 600,000 ELDERLY HOUSEHOLDS. IT IS ESTIMATED THAT 468,000 ELDERLY PERSONS IN FEDERALLY-ASSISTED HOUSING ARE CURRENTLY AT RISK OF INSTITUTIONALIZATION DUE TO FRAILTY.

AS AN EXAMPLE OF THE AGING OF ELDERLY IN PLACE FROM OUR OWN AGENCY, ONE OF OUR HOUSING DEVELOPMENTS FOR SENIORS IS NOW 17 YEARS OLD: WE FIND THAT 20% OF THE ORIGINAL OCCUPANTS, WHOSE AVERAGE AGE AT ENTRY WAS 65 YEARS, ARE STILL IN OCCUPANCY, BUT THEIR AVERAGE AGE NOW IS OVER 80.

MR. CHAIRMAN, WE DO NOT NEED TO REINVENT THE WHEEL IN PROVIDING PROGRAMS TO MEET THE NEEDS OF LOW-INCOME FAMILIES. WE DO NEED TO CREATE THE CIRCUMSTANCE IN WHICH FAMILIES CAN THRIVE, ACHIEVE ECONOMIC SECURITY, SELF-RELIANCE, HOPE AND A SENSE OF COMMUNITY. WE DO NEED A NATIONAL COMMITMENT TO POLICIES WHICH WILL BRING TOGETHER THE PUBLIC, PRIVATE AND OTHER RESOURCES NECESSARY TO ACHIEVE THESE GOALS, INCLUDING RESOURCES WHICH ONLY THE NATIONAL GOVERNMENT CAN PROVIDE.

W.F. Cottrell Testimony
April 7, 1988

EXHIBIT A

"The Changing Demographic Profile of U.S. Households"

from

HOUSING NEEDS TO THE YEAR 2000

by
Margery Austin Turner
The Urban Institute

Prepared for the National Association of
Housing and Redevelopment Officials

March 1987

THE CHANGING DEMOGRAPHIC PROFILE OF U.S. HOUSEHOLDS

Over the remainder of this century, changes in housing needs will result from the interaction of demographic and income trends with changes in the housing stock. This section and the next focus on these two factors, first describing patterns of population growth and expected trends in the distribution of income, and then focusing on changes in the stock of available housing. By the end of this century, the U.S. population should exceed 106 million households, an increase of almost 21 million over the 85 million households in 1983.* This growth -- of roughly 1.4 million additional households per year -- reflects the combination of increases in the number of individuals reaching maturity and in the rate of household formation.

Household Growth by Composition and Age

Exhibit 9 presents distributions of households by age and household composition for 1980 and 2000, as well as projected rates of increase for each group. These data reveal seven important trends in the profile of U.S. households:

Single individuals will be the fastest growing household type, their numbers increasing by almost 75 percent. Today, less than one fourth of U.S. households are single individuals; by the end of the century, single individuals will account for almost one third of all households.

Two age groups will contribute to the rapid growth in the number of single individuals -- elderly people over 75 and middle-aged people, between 35 and 55. These are the two fastest growing age groups among household heads, and the share who live alone will more than double.

Among elderly households, the share of "young elderly" (aged 65 to 74) will decline, since the number of "older elderly" (75 years and above) is growing so rapidly. In 1980, only about one third of elderly households were headed by a person 75 or older, but by the end of the century, about half of all elderly households will be "older elderly."

The number of married couples -- with and without children -- will grow slowly. In fact, the number of these traditional families who are under 35 is actually expected to decline. Currently, married couples with children account for almost one third of all households, but by the end of the century only about 27 percent of U.S. households will fit this description.

The number of non husband-wife families with children will grow by almost half. A growing share of these families will be headed by elderly people, but the majority will be headed by women between the ages of 30 and 55.

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* All population projections used in this paper are from the Pitkin and Masnick(1986) middle projection series.

EXHIBIT 9
DISTRIBUTION OF HOUSEHOLDS, 1980-2000
(1000s)

1980	Age 18-24	Age 25-29	Age 30-34	Age 35-44	Age 45-54	Age 55-64	Age 65-74	Age 75+	Total
Married Couples									
Children	1.80%	4.55%	6.52%	10.69%	5.80%	1.72%	0.34%	0.05%	31.47%
No Children	1.71%	2.15%	1.25%	1.68%	5.31%	8.68%	6.16%	2.59%	29.53%
Other Families									
Children	0.91%	1.25%	1.48%	2.31%	1.13%	0.38%	0.13%	0.05%	7.64%
No Children	0.26%	0.22%	0.14%	0.46%	1.00%	1.28%	0.97%	0.78%	5.11%
Single Indivs	2.05%	2.42%	1.77%	1.91%	2.11%	3.54%	4.67%	4.15%	22.61%
Non-Family Grps	1.28%	0.83%	0.43%	0.35%	0.24%	0.22%	0.17%	0.12%	3.63%
Total	8.00%	11.41%	11.59%	17.40%	15.58%	15.83%	12.45%	7.74%	100.00%

2000	Age 18-24	Age 25-29	Age 30-34	Age 35-44	Age 45-54	Age 55-64	Age 65-74	Age 75+	Total
Married Couples									
Children	0.82%	2.06%	4.39%	11.81%	5.83%	1.37%	0.38%	0.10%	26.75%
No Children	0.52%	0.74%	0.73%	2.21%	6.38%	6.59%	4.98%	3.20%	25.35%
Other Families									
Children	0.65%	0.98%	1.36%	3.21%	1.61%	0.43%	0.16%	0.07%	8.47%
No Children	0.12%	0.17%	0.16%	0.80%	1.65%	1.24%	0.94%	1.06%	6.12%
Single Indivs	1.21%	2.19%	2.17%	4.32%	4.47%	3.96%	4.80%	6.62%	29.74%
Non-Family Grps	0.60%	0.66%	0.49%	0.78%	0.52%	0.24%	0.13%	0.13%	3.57%
Total	3.93%	6.79%	9.30%	23.13%	20.47%	13.83%	11.38%	11.18%	100.00%

Percent Change 1980-2000	Age 18-24	Age 25-29	Age 30-34	Age 35-44	Age 45-54	Age 55-64	Age 65-74	Age 75+	Total
Married Couples									
Children	-39.90%	-40.32%	-11.13%	45.79%	32.73%	4.92%	45.62%	163.41%	12.21%
No Children	-59.56%	-54.89%	-22.83%	73.00%	58.60%	0.16%	6.69%	63.13%	13.27%
Other Families									
Children	-4.68%	3.99%	20.82%	82.89%	88.00%	48.38%	57.55%	84.21%	46.20%
No Children	-40.87%	2.31%	48.70%	129.97%	117.02%	27.26%	28.22%	78.34%	58.15%
Single Indivs	-21.72%	19.18%	62.30%	199.15%	179.92%	47.85%	35.40%	110.59%	73.62%
Non-Family Grps	-37.88%	5.24%	50.29%	199.28%	194.18%	40.78%	2.19%	47.37%	29.53%
Total	-35.16%	-21.48%	5.91%	75.42%	73.32%	15.27%	20.69%	90.67%	31.98%

Source: Pitkin and Masnick(1986), Table A.

The number of non husband-wife families without children will also experience relatively rapid growth. Most of these households are headed by individuals who are over 45.

The total share of families with children will decline slightly, from almost 40 percent of all households in 1980 to about 35 percent in 2000. Of these families, however, the proportion with both a father and mother present is expected to drop from over 80 percent to about 75 percent. In other words, an increasing share of families with children will be headed by single mothers.

What do these trends imply for the housing sector and for housing assistance needs? First, we can expect significant changes in the types of housing sought. Fewer households will seek the traditional suburban single-family home in which to raise a family, and an increasing share of those who do need room for children will be single mothers, many of whom cannot afford the suburban dream house. Second, dramatic increases in the number of single individuals may boost demand for smaller units, and since many of these individuals will be elderly, the demand for housing with access to supplementary services will expand. Thus, we can anticipate considerable pressure on some segments of the existing housing stock -- smaller units and those offering services for the frail elderly, while other types of housing -- large suburban units designed for affluent families -- may become less desirable. Since over 80 percent of the 1980 to 2000 household growth will occur in metropolitan areas, pressures on the urban housing stock will be particularly severe.

Changes in the Characteristics of Low Income Households

Housing suppliers will respond reasonably promptly to the changing demands of affluent households, but people with limited incomes may encounter increasing difficulties obtaining the housing they need at prices they can afford. Two of the most rapidly growing segments of the population -- single parent families and elderly individuals -- have historically been over represented among low income households. We know that a large share of female-headed households confront the traditional housing problems of physical inadequacy, crowding, and excessive cost burden. Moreover, both female-headed families and elderly households already have trouble finding suitable housing units. The pressures for housing assistance tailored to the needs of these two groups will become considerably more urgent by the end of the century.

It is extremely difficult to predict with precision how much the size and composition of the low income population will change by the end of this century. We can, however, develop order-of-magnitude estimates, based on the demographic projections presented above and on current rates of low income status. These estimates are presented in Exhibit 10.

EXHIBIT 10
LOW INCOME HOUSEHOLDS, 1983 AND 2000
(1000s)

	1983	2000 A	2000 B
Total Households	84,842	106,006	106,006
Very Low Income Households	22,943	28,622	28,622
Non-Elderly			
Married	27%	21%	23%
Sngl-Prnt Families	14	15	17
Single Indivs	16	21	23
Other	12	11	12
Elderly			
Married	9	7	4
Single	22	25	22
Total Very Low Income	100	100	100
Lower Income Households	15,455	19,081	19,081
Non-Elderly			
Married	42%	35%	36%
Sngl-Prnt Families	8	10	10
Single Indivs	14	19	20
Other	12	11	12
Elderly			
Married	15	13	12
Single	9	12	10
Total Lower Income	100	100	100

Note: 2000 A assumes no change in the relative rates of low income status for various household types. 2000 B assumes that the rate of low income status for elderly households declines.

Because HUD's income standard is based on local median incomes, Exhibit 10 assumes that the incidence of very low and lower income status will remain relatively stable. By definition, 50 percent of all households will always fall below local median incomes, but the share with incomes less than half of the local median and the share with incomes below 80 percent of local median may vary, depending on how evenly income growth is distributed. Income gains in the late 1970s and early 1980s were skewed toward the most affluent segments of our population (Palmer and Sawhill, 1982); Muller, Soble and Dujak, 1980). To the degree that this trend is sustained, the proportion of households classified as very low and lower income could increase. However, from 1975 and 1983, the share of households with incomes below 50 percent of median fluctuated between 26 and 28 percent, and the share with incomes between 50 and 80 percent of median ranged between 18 percent and 19 percent. The 1975-

1983 data provide no evidence of any persistent upward trend in these shares. Therefore, we assume that the overall share of households whose incomes fall below 50 percent of area median will remain at its current level -- about 27 percent, and that the share of households with incomes between 50 and 80 percent of median will remain stable at about 18 percent. This yields a total of about 29 million very low income households and 19 million lower income households in the year 2000, increases of about 5.7 million and 3.6 million respectively over the totals for 1983.

Recent trends suggest that a decreasing share of elderly households are poor, while families -- both single-parent and traditional -- may be increasingly likely to have low incomes.* However, it is difficult to determine how significant these trends are or whether they will persist for the remainder of the century. If we assume that the relative rates of low income status for different household types will remain essentially unchanged, then among very low and lower income households, the share of married couples will decline while the share of single individuals, both elderly and non-elderly will increase. If, on the other hand, we assume that the rate of very low income status continues to decline among the elderly, we can anticipate the same decline in the share of low income households who are married, an increase in the share of non-elderly singles, and a sizeable increase in the share of single-parent families. In either case, the elderly and single mothers will continue to be over represented among the low income population, and an ever-increasing share of the elderly will be over 75.

The increase in non-elderly singles among the poor is significant because households of this type are not eligible for housing assistance, unless they are mentally or physically handicapped. Very little is known about the housing needs of low income singles, or about the types of problems they confront. The increasing size of this household group among the low income population may ultimately lead to a reassessment of their need for housing assistance.

Undocumented Population Growth

Two groups in the U.S. today -- the homeless and illegal immigrants -- appear to be growing rapidly but are likely to undercounted in conventional population projections. We can only guess how many such individuals and families will live in this country by the end of the century. Since they are likely to increase the size of the very low income population over our initial estimates, it is essential that they not be overlooked.

As discussed in the previous section, there is tremendous uncertainty about the number of homeless people living in America's cities. Not surprisingly, there is just as much disagreement about how rapidly the homeless population is growing; estimates of annual increases range from ten percent to almost forty percent. Analysts and service providers cite six basic factors that affect the size of the homeless population:

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* Moreover, the concentration of poor households in central cities will probably be exacerbated. Muller,Soble, Dujak(1980).

The unemployment rate;

The availability of community-based facilities for mentally ill people who have been deinstitutionalized;

Increases in personal crises;

The availability of public assistance;

The supply of low-cost housing; and

The incidence of alcohol and drug abuse (GAO, 1985).

Most of these factors are beyond the scope of housing assistance policies, but it is clear that the gap between housing needs and housing assistance can only exacerbate the problem of homelessness in the years ahead.

Illegal aliens are as difficult to count as the homeless. Informed estimates suggest that as many as three to six million illegal aliens may be living in the U.S. today, with 100,000 to 500,000 more entering the country each year (Ashabranner, 1983). The number of illegal immigrants joining our society by the end of the century will, of course, depend on world-wide economic and political developments, as well as on U.S. immigration policy. Regardless of their exact numbers, illegal aliens contribute to the low income population in the metropolitan areas where they are concentrated.* Many are employed in very low-income jobs. They are not eligible for public assistance, and in the absence of affordable rental housing, many will experience serious housing deprivation and crowding, with some ultimately joining the ranks of the homeless.

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* New York, Los Angeles, Chicago, Miami, San Antonio, Newark, San Francisco, San Diego. Ashabranner(1983).

W.F. Cottrell
April 7, 1988

"Demonstrations on Housing Settings
for Special Needs Households"

EXHIBIT B

EXCERPTS FROM HOUSING AND URBAN DEVELOPMENT ACT OF 1970

[Public Law 91-609; 84 Stat. 1784; 12 U.S.C. 1701z-1]

TITLE V—RESEARCH AND TECHNOLOGY

RESEARCH AND DEMONSTRATIONS

Sec. 501. The Secretary of Housing and Urban Development is authorized and directed to undertake such programs of research, studies, testing, and demonstration relating to the mission and programs of the Department as he determines to be necessary and appropriate. There are authorized to be appropriated for activities under this title not to exceed $19,000,000 for fiscal year 1984, and such sums as may be necessary for fiscal year 1985. Of the amount appropriated under the preceding sentence for fiscal year 1984, not less than $2,000,000 shall be provided for implementation of a research program to be developed in consultation with public housing agencies, which program shall identify current problems of public housing management, specific solutions to such problems, and incentives to encourage implementation of such solutions. All funds so appropriated shall remain available until expended unless specifically limited.

ADDITIONAL RESEARCH AUTHORITY

Sec. 507. (a) In carrying out activities under section 501, the Secretary may undertake special demonstrations to determine the housing design, the housing structure, and the housing-related facilities, and amenities most effective or appropriate to meet the needs of groups with special housing needs including the elderly, the handicapped, the displaced, single individuals, broken families, and large households. For this purpose, the Secretary is authorized to enter into contracts with, to make grants to, and to provide other types of assistance to individuals and entities with special competence and knowledge to contribute to the planning, development, design, and management of such housing.

(b) In carrying out his functions under this section, the Secretary shall give preferential attention to demonstrations which in his judgment involve areas of housing user needs most neglected in past and current research and demonstration efforts.

(c) The Secretary is authorized to undertake demonstations involving the actual planning, development, and occupancy of housing utilizing the contract and loan authority of any federally assisted housing program. He is also authorized to set aside any development, construction, design; and occupancy requirements, for the purposes of these demonstrations, if in his judgment they inhibit the testing of housing designed to meet the special housing needs.

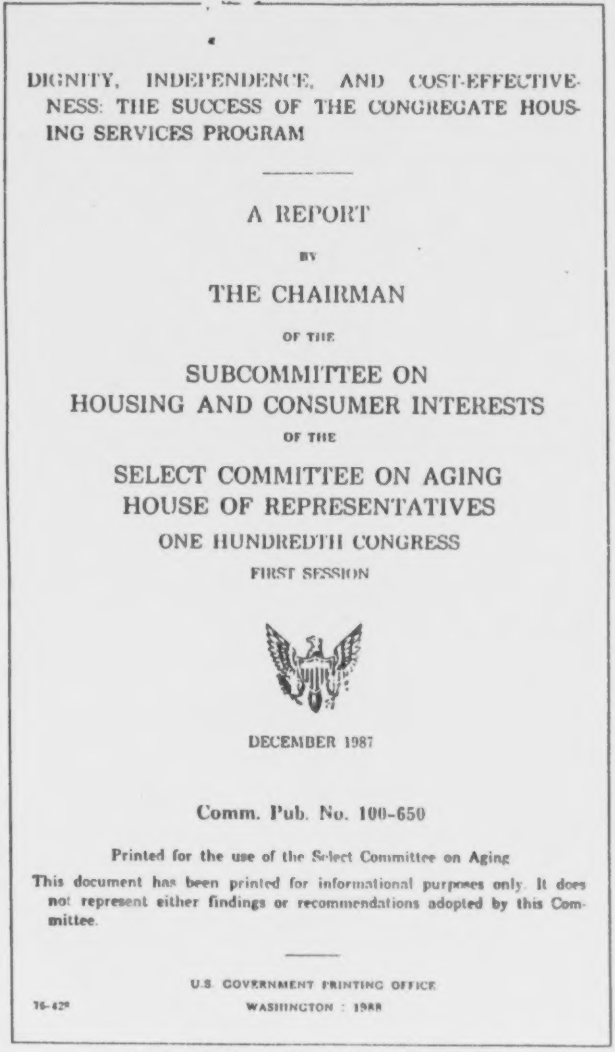
(d) In carrying out this section, the Secretary shall include, as part of any demonstration, an evaluation of the demonstration to cover the full experience involved in planning, development, and occupancy.

(e) In addition to any other contract or loan authority which the Secretary may utilize under subsection (c), not more than $10,000,000 from amounts approved in appropriation Acts shall be available for research under this section.

W.F. Cottrell
April 7, 1988

"The Evolution of Federal Housing Policy
and the Convergence with Long-Term Care Policy"
from

EXHIBIT C



DIGNITY, INDEPENDENCE, AND COST-EFFECTIVENESS: THE SUCCESS OF THE CONGREGATE HOUSING SERVICES PROGRAM

A REPORT

BY

THE CHAIRMAN

OF THE

SUBCOMMITTEE ON
HOUSING AND CONSUMER INTERESTS

OF THE

SELECT COMMITTEE ON AGING
HOUSE OF REPRESENTATIVES
ONE HUNDREDTH CONGRESS
FIRST SESSION

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A. THE EVOLUTION OF FEDERAL HOUSING POLICY

The federal government's involvement in low-income housing began through the Housing Act of 1937. Though not intended as a program targeted to the elderly, the public housing program has become a major form of assistance to low income older people. The percentage of elderly people in public housing units jumped from 10% in 1956 to 46% in 1984. This increase is due both to legislative initiatives beginning in the late 1950's designed to promote the construction of units for the elderly and the "aging in place" of long-term residents (U.S. Senate Special Committee on Aging, 1987, p. 289).

The first housing program specifically designed for the elderly, the "Section 202" program, was first enacted in 1959. As revived in 1974, this program provides loans to private, non-profit organizations for the construction of rental units designed for the elderly. The "Section 8" certificate program, enacted in 1974 to provide housing subsidies for low-income housing units, has also become a major subsidy to older people, in part because Section 202 housing units are linked to Section 8 rental subsidies.

Housing programs have been a major target for budget cutting by the current Administration. After cuts of more than 70% since 1981, units for the elderly are virtually the only new federally assisted rental housing being built, ensuring that federal housing policy continues to increasingly become a policy for the elderly. Today, HUD data indicates that federal programs provide almost 1.6 million units for older people—approximately 800,000 through Section 8, 650,000 through public housing, and 150,000 through Section 202.

The Congregate Housing Services Program was initiated in 1978 to provide a range of nonmedical services to the growing number of older people in federally subsidized housing who require in-home services to avoid premature institutionalization. Based on an evaluation report commissioned by HUD (described at length below), 24% of the elderly residents of federally assisted housing have some functional disability which makes them more vulnerable to institutionalization. One estimate indicates that as many as 1.1 million out of 23 million older people in the U.S. would benefit from congregate housing with services (Sherwood, et.al., p. I-3).

Because requirements for living in federally subsidized housing currently restrict assistance to "very low income households," virtually all of the residents of these facilities would quickly "spend down" their assets to levels eligible for Medicaid subsidies if long-term care were to become necessary and alternative services were unavailable. *Policy makers are, therefore, faced with two principal choices: continue to support rapidly increasing Medicaid costs or other costly means of financing nursing home care; or seek alternative service delivery programs such as the CHSP.* Advocates of in-home services contend that, by avoiding unnecessary nursing home care, we can meet the need for services and save taxpayer dollars.

As the first program within the Department of Housing and Urban Development (HUD) to provide social services, the CHSP has been criticized both by those in the current Administration who want to limit federal involvement in the provision of services and by those in HUD who would rather see the funding come from the budgets of other departments. One of the developers of the CHSP, Albert Eisenberg, has noted that the issue of whether the CHSP should be considered a housing or a services program has been debated since its inception. By placing the program under HUD, the program's developers were making the decision to make the maintenance of independent living rather than institutional services the focus of the program. Eisenberg described both the rationale for this placement and the problems it has encountered in testimony before the Subcommittee on Housing and Consumer Interests:

> We decided to give the program to HUD. We viewed it as a housing program, not a services program. Unfortunately all the people who seem to review this in the administration circles are all on the services side rather than on the HUD side. When it got up to OMB, at the time we put forth this program, it went to the services people who did not understand it. It is a housing program. It gives people a type of living situation that they could not otherwise have (Subcommittee on Housing, 1985, pp. 59 ff.).

Its success in providing services and its importance as a model for the provision of services to the elderly outside of institutional settings have mobilized the support needed to save the CHSP from annual attempts to eliminate it from the budget.

B. The Convergence With Long-Term Care Policy

The mounting costs of institutional care have forced policy planners to experiment with service programs designed to prevent unnecessary institutionalization. Attempts to fill the gaps between fully independent living and institutional care represent a growing convergence on the need to reduce medical and nursing home costs through in-home care.

Unfortunately, rather than building a coherent, integrated policy, a plethora of competing and overlapping programs providing long-term services to the elderly has evolved. An estimated 80 plus federal programs currently assist people with long-term care problems (U.S. Senate Special Committee on Aging, 1987, p. 268). This fragmentation is multiplied by programs addressing long-term care issues at the state and local levels.

Further complicating the picture is the divorce of policy making on long-term care from policies on housing and social services. As a result, long-term care policies have long been dominated by an approach modeled on the professional and institutional treatment of acute diseases. This can be seen in the ways health care delivery programs sponsored by the federal government, especially Medicare and Medicaid, have been structured. Because of the emphasis on short-term institutional care, older people find that they can typically receive long-term assistance only under the most dire circumstances. While Medicare provides every little assistance for long-term care outside a hospital setting, Medicaid provides for long-term care only after the individual has been impoverished and almost always in a nursing home.

Simply stated, the federal government is in the illogical position of paying for only the most expensive options—acute hospital and nursing home care. As the HUD sponsored evaluation of the CHSP notes, "Despite the increasing interest in alternatives, institutionalization is still the primary publicly-supported option in long-term care, perhaps because public funding patterns favor institutional care over lower levels of community-based care" (Sherwood, et.al., 1985, p. 1-2). The resulting acute costs to Medicare were $73 billion in 1986 (U.S. Special Committee on Aging, 1987, p. 192). Further, the 1986 cost of nursing home care through Medicaid was $17.6 billion (U.S. Senate Special Committee on Aging, 1987, p. 269).

Both Medicare and Medicaid now have small programs to deal with in-home services. Medicare offers both a home health care benefit and a hospice benefit. Medicaid has allowed a limited expansion of home and community-based services through the "2176 waiver" program whereby states may elect to provide in-home services instead of institutional care under tightly procribed requirements. Critics argue that the Reagan Administration has responded with hostility toward in-home services programs by proposing cutbacks, providing inadequate funding, and creating obstacles in the waiver request process.

Two social service programs also provide in-home services: (1) the Social Services Block Grant (SSBG) and (2) Title III of the Older Americans Act (OAA). While both of these programs provide services similar to the CHSP, each has major drawbacks. As part of a block grant whose spending priorities are established by the states, the elderly must compete for SSBG services with other groups—with the result the most funds go to families with children. Title III of the OAA has little experience meeting the needs of those in federally assisted housing.

In short, the CHSP remains a small, demonstration program which, like other in-home service programs, must fight for survival against ideological interests and bureaucratic fragmentation. The increasing demand for cost containment has, however, drawn attention to the CHSP and similar programs which provide low-cost, in-home services as an alternative to the more costly option of institutionalization. The ability to delivery services that promote independent living while saving tax payer dollars has been a major attraction of the CHSP.

Senator CRANSTON. Fred.

STATEMENT OF FRED NAKAMURA, SAN FERNANDO VALLEY LEGAL SERVICES

Mr. NAKAMURA. Thank you for inviting me to this hearing. I'm an employee at San Fernando Valley Neighborhood Legal Services. We're a law office that's funded by the Legal Service Corporation, and we're providing legal services free to the indigent.

Housing is our top priority. Over one-third of our resources is spent on representing the poor with housing problems.

I'm going to talk to you about a case and discuss five recommendations which stem from this case. I will submit additional recommendations in writing.

Last year, I represented a group of thirty tenants in an SRO that was being demolished by the landlord. This SRO was located in Chinatown, which is in a redevelopment project area, and because of redevelopment property values in this area have skyrocketed. That land alone where the SRO sat was worth $5 million.

All the tenants are long-term, and they are also elderly, very elderly, four of them in their eighties. Tenants have resided in these SRO's for 15 to 20 years.

Under redevelopment law, when a tenant is displaced as a result of governmental actions, the Government is supposed to provide them with relocation assistance. In this instance, they didn't provide the relocation assistance because they were claiming that until there is a contract entered into by the landlord and the redevelopment agency, there was no Government action that was causing the displacement; although clearly in the future there would have been such an agreement, at the time the tenants were being evicted there was no agreement.

I believe the Redevelopment Uniform Relocation Act needs to be changed to protect tenants who are being displaced from a redevelopment project area even if there is no formal agreement between the redevelopment agency and the land owner. The way the law stands now would be very easy for the redevelopment agencies to avoid any obligations for providing relocation assistance by instructing the land owner to evict the tenants before negotiating a contract with them. Or land owners can sell their property to commercial developers after the landlord has vacated the premises.

Like I was saying, property values increase whenever there's redevelopment activities, and tenants that are displaced as a result should be compensated or should be assisted in finding new homes.

The eviction of these tenants took a process of 2 years, and during that time we sought housing for them. And I looked pretty much everywhere for this housing. It was difficult because they were elderly Chinese, they could not speak English, and all the social services was located in Chinatown and there's cultural and language barriers which pretty much requires them to be at least in or around Chinatown. And the vacancy rate in Chinatown is pretty close to zero. Vacancy rates in L.A. is pretty bad, but in ethnic minority areas where redevelopment is occurring, it is very bad.

It just so happens that the CRA built a 24-unit complex in Chinatown, and it was family-sized units. They were two- and three-bedroom units. It was built with Section 8 new construction funds, and also CRA helped finance that project. I submitted application on behalf of these tenants. Their applications were rejected because their households were too small. So what I did was I combined the households—combined, you know, two and three widows and made them into a family and resubmitted the application, and they raised another problem in that, with their combined SSI incomes, their incomes were greater than the maximum. So two poor people who reside together can't qualify for low-income housing, and I believe it's a waste of housing resources to have a rule such as that because the tenants want to live together, they've been sharing kitchens and bathrooms together in an SRO, and to share an apartment would be a luxury, actually, because they won't have to share with thirty other tenants, but just two or three.

Well, anyway, their applications were again rejected. But even if it was accepted, there were 2,000 applications for this 24-unit complex, and none of the—the odds were pretty low that they would have been selected, anyway.

I believe the Federal Government—the Federal Government in 1986 passed regulations regarding shared Section 8 housing, and those regulations were not made mandatory on housing authorities. As a result, the L.A. City Housing Authority has not yet adopted shared housing regulations. And I believe it would make sense to require shared housing regulations to become mandatory so tenants who want to share will be able to share, and it would be a better utilization of the scarce Section 8 housing that we have.

Because rental housing was not available for these tenants, we sought to purchase housing. We saved rents for the past 20 months, and we also were anticipating relocation assistance through the L.A. city local rent control law. We ran into problems there. Even though the tenants, by combining their incomes and their rent savings, could have afforded a down payment, very few bankers would loan to SSI tenants. And also, the housing that we could afford needed rehabilitation. We applied to the CRA for rehabilitation monies and those funds were denied even though the CRA offered such monies to the prior owner of the house. I believe they didn't want to deal with a group of tenants rather than just a regular landlord or something.

Well, I see my time is up, so I won't be able to get into some other areas. But I believe if we were to increase the Section 8 certificate amounts and tenants are able to obtain such funds, I think that would help a great deal.

And my last comment was regarding prohibiting credit reporting agencies from reporting eviction actions that are filed against tenants when those actions don't result in a judgment against the tenant. In these 2 years, I fought four unlawful detainer actions, and I was able to cause the dismissal of all of them. But tenants in these cases have a very bad credit report because it shows that there were four actions filed, even though those cases were dismissed. It shows on their credit as bad tenants, and very few landlords will rent to tenants with four unlawful detainers. And there is no reason why unlawful detainers that are dismissed should be reported.

Thank you very much.

Senator **Cranston**. Thank you a great, great deal. I thank each of you very much for your contributions.

Nancy, do you have one question?

Representative **Pelosi**. I'll be very brief, Mr. Chairman, in the interests of time. My questions would address the allocation of resources, taking up on some of what Fred and the others have mentioned here this morning in your fine testimony. In the allocation of the limited resources that we have, what priority would you give to building more, upgrading and maintaining, or rental subsidies, if we have a finite amount of money to spend?

In terms of public housing, you said that all housing is local. I think Fred's testimony is testimony to the fact that all housing is also personal. In my city of San Francisco, the district I represent, the overwhelming majority of housing is rental. And in our low-rung of the pole of public housing, the projects have become, because of their low maintenance and nonresident managers, a source of so many complaints, crime and crack that it is, I think, a poor allocation of our federal resources. My office spends a great deal of time on these problems. We are almost to the point of organizing the tenants in the public housing in the projects in the San Francisco.

So my questions would be addressed to what priority in the scheme of things and in view of the limited resources you would give to new construction, upgrading as necessary with the public housing, and rental subsidies.

Again, thank you for your fine testimony. This is an area in which my district is most interested.

Thank you, Mr. Chairman.

Senator **Cranston**. Thank you, Nancy. And thank you all very, very much.

We will now go to the third panel, one on Special Needs, consisting of Nancy Minte, lawyer, Inner City Law Center; Joseph (sic) Barbano, AARP Chairman of the State Legislative Committee; Norma Jean Vescovo, Executive Director, Darrell McDaniel Independent Living Center; Mark Thomas and Gregory (her son), representing the homeless; and Sylvia Ruiz, President, Tierra Concepts, a private consultant.

We welcome you to this panel. I trust you've seen our procedures already. We thank you very much for being with us now, and if you could remember the time problem. I'm going to have to leave at 12:00. We have a little bit less than half an hour left, but we will continue to the finish one way or another.

Our first witness is Nancy Minte, attorney, Inner City Law Center.

STATEMENT OF NANCY MINTE, ATTORNEY, INNER CITY LAW CENTER.

Ms. **Minte**. Thank you very much, Senator.

For the last 9 years, I've been working as the director of a program here in Los Angeles that serves homeless and indigent people, in other words, the very poorest of the poor in this city, and I feel as if I'm speaking for all of them today.

And as I read over the recommendations of the Task Force report, I was struck by one point, and I'd like to make just one basic—I'd like to communicate just one basic message in my testimony today. And that is that I would urge you not to fall into the trap, not to make the same mistake that most governmental entities make when they get near the housing issue. And that mistake is that governmental entities believe that they are addressing the housing needs of the poor when they make provisions for low-income housing. But the sad reality is that in America today we not only have low-income people who need low-income housing, but the sad reality is that just here in Los Angeles alone we have tens of thousands of people who are no-income people or who are ridiculously low-income people or sub-subsistence-income people.

And the fact is that the housing needs of these tens of thousands of people will never be addressed if the Government confines its concern to what is traditionally known as the low-income population.

Let me give you just a couple of examples. Massachusetts, of course, is one of the flagship States for housing development programs, many of them very exemplary. However, a number of their programs define a low-income family as a family earning less than $29,000 a year. Well, I don't earn $29,000 a year. My clients earn closer to $2,900 a year, as an average income.

Here in Los Angeles right now, our mayor is proposing a generally commendable program. It's a proposal to use downtown redevelopment funds for low-income housing. But a low-income family, for purposes of this program, is defined as a family that earns $2,366 a month. Well, this would be an unbelievable fortune for the poor with whom I work here in Los Angeles.

And I would like to take a moment just to walk you down a few rungs of the low-income housing ladder and explain to you exactly how it doesn't work for the poor here in Los Angeles and why it doesn't work.

At the top of the ladder we have what HUD has defined as the market rental rate for a single studio apartment, the lowest or cheapest form of decent, safe and sanitary housing in Los Angeles. And that rate in 1987 was $530 a month. Well, the kind of folks that I serve in this city consist of folks who earn minimum wage, who work full-time and they're at minimum wage, which gives you a monthly income before taxes of approximately $536 a month. Well, you're not going to get that studio apartment for $530 a month if your income before taxes is $536 a month, even if you're working full-time and especially if you've got a whole family you're trying to move into a unit.

I also represent the elderly or disabled who are on SSI, which is of course the disability program for the elderly and disabled under the Social Security Administration. And those folks receive $575 a month. Well, now, they might be able to pay for that $530 a month studio apartment, but that would leave them $1.50 a day for the rest of the month each day to cover all of their other needs.

I represent mothers with small dependent children. A mother on aid in this county with a small dependent child receives $511 a month as their income. She's not going to get that studio apartment either.

And if an indigent person is a single person, doesn't have any children at all, the picture is even bleaker.

The only other safety net program in our area available for these individuals is a Workfare Program where a person works for the county and earns $280 a month. We've got 40,000 people in this county working for the county and earning $280 a month. Now, many of those people can't find housing at all and they're on the streets even though they're participating in our great safety net program here.

Now, how do some of these people that I've described to you find housing. Well, I can tell you that they're not finding decent, safe and sanitary housing. What's happening is that their low-income levels are driving them into the arms of a very wide and blatant slumlord network that we have in this city. These fellows provide below-market rental rate housing in conditions that most people think went out with Charles Dickens novels. Most people do not understand the horrendous condition of our low-income housing, our slum housing stock in this city and how widespread it is.

A couple years ago—or a number of years ago now—I took on a case with a low-income apartment building. To make it very brief, the children in this apartment building were getting attacked by enormous rats, and this was just one of the many deplorable conditions in this building. The rats were a foot, foot and a half long, not counting the tails. I sued the landlord, ran him out of town and thought I had done a great public service getting rid of what must have been a unique horrible situation in the city of Los Angeles. We got a little publicity on that case, and the requests poured in from all over the city, identical cases, people being—adults, children being attacked by rats in the housing stock all over this city. I thought initially people were just trying to make a quick buck and I went around checking out these stories. They all checked out. This is what our housing stock looks like.

And of course, the last run of the low-income housing ladder are the homeless. The County Department of Mental Health in this area of Los Angeles did a very reputable study where it found among the homeless population the majority of them had tried to get onto this Workfare Program that I described to you earlier so they could get $280 a month, you know, maybe buy a week of shelter with that. Only 5 percent of them had been successful in getting onto this program because it is so filled with bureaucratic obstacles that most of the homeless were completely excluded. And the estimate now for homeless people here in Los Angeles is between 35,000 and 60,000. Those are people for whom low-income housing is a cardboard box.

So I would urge you—I would beg you, as you go about designing a National Housing Policy for this country, for my country, please don't forget my no-income folks, please don't forget the little kids that I've in these buildings that are getting jumped by rats because their parents cannot even afford the lowest level of decent, safe and sanitary low-income housing.

Thank you.

Senator **Cranston**. Thank you very much for that very heartfelt testimony. I assure you that those people will not be overlooked, nor forgotten.

[The complete prepared statement of Nancy Mintie follows:]

TESTIMONY FOR THE NATIONAL HOUSING POLICY CONFERENCE AND HEARING
APRIL 7, 1988
LOS ANGELES, CALIFORNIA
SUMBITTED BY NANCY MINTIE
DIRECTOR, INNER CITY LAW CENTER

Inner City Law Center has been located in the heart of Los Angeles' Skid Row for nearly a decade. We represent our clients in landlord/tenant disputes and government benefits cases and also do a tremendous amount of advocacy and social work on their behalf. Virtually every one of our clients is either homeless or marginally and temporarily housed in substandard and overpriced single room occupancy (SRO) hotel rooms. Many actually fit both categories; their income is so low that they are able to afford a week or two each month in a Skid Row hotel and then must spend the remainder outdoors without housing. We are deeply pained by the suffering of our homeless and ill-housed clients, and our comments address their special housing needs.

We applaud the recommendations of the National Housing Task Force Report, particularly the emphasis on Federal support for local housing initiatives. Our experience in downtown Los Angeles supports the Task Force's finding that local housing programs are the most efficient and conscientious providers of decent, safe homes for homeless people, and their effectiveness would be multiplied by access to Federal funding. Our single substantive concern about the Task Force Report is the absence of attention to the needs of very low income households. Our testimony today will focus on the specific housing needs of our homeless and marginally housed Skid Row clients.

In theory, this group can be housed either of two ways: either people's incomes must be supplemented so that they can afford decent market rate housing in Los Angeles, or else decent housing must be made available which they can afford on their present incomes. Ideally any national policy will address both income levels and the cost of housing for the very poor people of our city and similar ones throughout the country.

INCOME

By far the majority of our clients, if they have any income at all, receive General Relief, a subsistence welfare program funded entirely by Los Angeles County. To be eligible for General Relief in Los Angeles County, a person must have received less than the grant level of $280 in the month of application and must not have or be eligible for any other income, including other public benefits. Thus one must be virtually indigent to qualify for General Relief. Any income of any kind which is received while one receives General

Relief is subtracted dollar-for-dollar from the grant, and one may not save money from one month for use the next. The General Relief grant is calculated on the basis of a budget of $175 per month for housing and the remainder for food and personal care items. There is no additional provision for first and last month's rent or for any other moving-in expenses.

This very low housing allocation, coupled with the absence of moving-in funds, funnels the entire General Relief population to single room occupancy hotel stock, which is the only housing that accepts tenants for short intervals and without substantial first time expenses. Other people with very low incomes, including the large number of people whose income source is sporadic day labor, face the same moving-in impediments and compete for the same SRO housing units.

There is absolutely no SRO housing, in Skid Row or anywhere else in the area, for the General Relief housing grant allocation of $175 per month. This is illustrated by a 1985 study conducted by Dr. Allen Heskin of UCLA. Dr. Heskin sent researchers into three areas judged to contain the largest concnetration of very low income housing in Los Angeles to try to obtain housing on the General Relief allocation, which was then $143 per month. Heskin's researchers determined that three units out of 181, or 1.32% of the units surveyed, rented at that time for less than $180 per month. Even three years ago there did not appear to be any significant number of housing units available for less than $225 per month. And by every account, rents have been escalating steadily since the Heskin study.

In Skid Row, until a recent six month moratorium temporarily halted this phenomenon, rents in the hotels typically paralleled the total General Relief grant. For many years the total grant was $228 per month, with the aforementioned $143 budgeted for housing. At that time, most Skid Row hotel rooms rented for $220 to $225 per month. When the grant was raised to $247 in 1985, within days hotel rates in Skid Row jumped to $240 to $245 per month. The most recent raise in the General Relief grant was accompanied by a temporary rent freeze, which will expire in May of 1988.

If moving-in expenses were to be made available to General Relief recipients, this would theoretically open access to the standard housing market in Los Angeles. In fact, studies confirm that there is virtually no General Relief-affordable housing in Los Angeles, even absent the concern about one-time moving-in expenses. A 1984 study commissioned by the City of Los Angeles and conducted by the research firm of Hamilton, Rabinowitz, Szanton and Alschuler indicated that, even at that time, and even including only units controlled by the City's Rent Stabilization Ordinance, the average household with an income of $10,000 or less per year who moved into an apartment in 1984 paid $393 per month in rent. This study demonstrates that even in 1984 housing was too expensive for our clients.

What should also be emphasized about this study is that it addressed the purchasing power of "low income households" in 1984 and set the threshold income at $10,000 per year. Four years later, the maximum income received by a person on General Relief is $3,360 per year, or about a third of this low income threshold. Clearly it is not enough to address the needs of all low income households without differentiation. It is essential that any Federal housing policy create a category to specifically address the needs and handicaps of "very low income" households, with "very low income" defined by public benefits levels including local relief.

With regard to income levels and Federal housing policy, it is imperative that local relief programs be mandated to provide adequate income to guarantee meaningful access to housing stock in local communities. In our State, General Relief funds are drawn entirely from County revenues, which, in turn, are derived from State block grants. It is virtually impossible for Los Angeles County, and many other Counties as well, to supply an adequate General Relief grant without Federal supplementation. The Federal government should offer assistance to local municipalities to enable them to assure adequate housing budgets in local benefits programs.

PRESERVING AND CREATING VERY LOW INCOME HOUSING

While some form of supplementation may bring individuals who receive public benefits into the bottom rung of the housing market, it does nothing for those who are not on welfare. It is also inefficient to supplement incomes in an area where market forces drive rents too high, as is the case in Los Angeles and many other large urban centers.

Rents in local SRO hotels average about $240 per month, with hotels that accept families charging yet higher rents. Inner City Law Center has brought civil lawsuits against some of the worst slumlords in our Skid Row neighborhood, and we have inspected nearly every hotel in the area. Not only are the rents out of reach for most of our clients, but the physical conditions of many of the hotels are truly appalling. Many are rat-infested. Virtually all have cockroaches and some level of dilapidation, including broken and missing windows, lead paint, dangerously inadequate fire protection, health hazards arising from problems with garbage disposal and so forth. We have documented numerous cases of children bitten by rats in these hotels and have heard expert testimony about the physical and psychological damage caused by these terrible conditions.

Los Angeles' propensity for earthquakes exacerbates our very low income housing crisis. Most SRO housing is constructed of unreinforced brick and does not meet current local seismic codes. A number of buildings sustained damage in our major earthquake last year. The expense of seismic reinforcement, coupled with the general appreciation of land values in Skid Row puts even this meager housing in danger. While the earthquakes are a local problem, we are aware that SRO housing stock in many large cities is similarly endangered by gentrification and other local factors. Presently there is no Federal funding at all for purchase and renovation of endangered very low income housing such as SRO hotels. Saving this existing housing must become a Federal priority. We will note some specifics relating to preserving SRO housing in the final section of these remarks.

With this said, it must be stated that saving existing housing is necessary but far insufficient. Virtually every unit of this endangered housing, including the most dilapidated and infested rooms, is fully occupied today; yet there remain some 35,000 - 60,000 people in Los Angeles County utterly without shelter. The entire Skid Row housing stock is about 8,000 units. Every one must be saved and renovated; the loss of even a single unit means another person on the street. But there is still an overwhelming need for new very low income housing.

The homeless population, as has been extensively documented, is far from homogeneous. There are single people and families, men and women, people with mental disabilities and people who are mentally quite fit, able and disabled people. Different people in different circumstances need different housing situations. We would offer just a few specific comments:

Almost all of the woefully few recent permanent housing projects in Los Angeles are designed for families rather than individuals. While the need for family housing is extraordinarily pressing, homeless individuals are hampered by access to even less income than that offered by AFDC and by lack of public sympathy. There seems to be a perception that single people can stay on the streets and in missions forever. We are seeing our single clients dying more and more frequently of their homelessness, from tuberculosis, violent assault and hypothermia. We seldom see elderly people on Skid Row these days, a testimony more to our clients' short lifespans than to any special services for older very poor people. Creating permanent, affordable housing for single adults, as well as for families, is literally a matter of life and death in our neighborhood.

Among our clientele we see many, probably a majority, who are definitely able to live independently. For these people, a safe, clean apartment or SRO hotel room is adequate. We see others who need some additional social support in order to live independently. While a percentage of our clients suffers from mental illnesses, very few need hospitalization, and those who do, need hospitalization only during incidents of crisis. Our mentally ill clients are able to live independently when they are provided with money management, training in basic shopping, cooking, use of public transportation and other "independent living" skills. There are several fine programs in our community and nationally which provide this kind of social support to mentally ill homeless people and see their clients living quite successfully in apartments and hotels. The Los Angeles Men's Place housing program and the Westside Neighbors project of Portals House locally, and the St. Francis Residence in New York City, collectively have a long track record of safely and economically housing individuals with serious and chronic mental illnesses. Hospitalizing people with mental illnesses is a medical response appropriate in a medical crisis. We absolutely oppose using hospitalization to treat the homelessness of homeless people with mental illnesses.

WHAT IS NEEDED TO SAVE SRO HOTELS

In Los Angeles there is a growing interest among reputable service providers in preserving and building housing for homeless people. At this time the provider community, working together with non-profit developers of very low income housing, have not been successful in figuring out ways to build new units of housing with existing resources. But there have been some very successful purchases and renovations of existing seriously dilapidated, endangered SRO hotels.

All these projects have four basic stages, each of which must be funded. These stages are: predevelopment, acquisition of property, renovation and ongoing programming. Because the potential income of this housing is so minimal (people on General Relief can reasonably pay about $175 per month, or just enough to cover monthly management and supplies for the building) and because non-profit service providers generally do not have large amounts of money or equity, funds for each stage of development must come from outside sources. We applaud the innovative work of the Local Initiative Support Corporation and the National Equity Fund, recognizing that they only exist because the new tax law provides so little support for the development of very low income housing. We would call for additional tax incentives to encourage the private sector to invest in very low income housing, defined as housing which is affordable to individuals and families with public benefits or the equivalent incomes.

In addition to tax incentives, non-profit housing development would be greatly assisted by accessible Federal funding for all four stages of housing development. At present, for example, there exists some local funding for acquisition and renovation of certain hotels, but none for predevelopment. Site selection, securing necessary permits and applying for public and private funding are all technical predevelopment services which must be purchased. It is estimated locally that it costs $20,000 to $30,000 to retain the services of a non-profit developer to provide this assistance, which in turn makes it possible to gain access to the larger funding pools necessary for site acquisition and renovation or construction. Retaining this kind of technical assistance is the first step in purchasing and renovating SRO hotels for very low income housing, and it may be insurmountable for otherwise highly capable small service providers without Federal assistance.

Obviously Federal funding for purchase and renovation of buildings will make it possible for experienced and concerned providers to do this important work locally. And finally, Federal funding for jobs counsellors, benefits advocates, physical and mental health care providers and management staff make it possible for even somewhat disabled very poor individuals to stay in independent living situations, at far less cost to the public fisc and to their own souls than institutionalization.

In summary, then, we recommend that the following elements be featured in Federal housing policy:

I. Special consideration needs to be given to the housing needs of "very low income" households, defined as individuals and families subsisting on public benefits or the equivalent income.

- A. Benefits levels for housing should have a Federally mandated floor which offers recipients realistic access to the local housing market. Where necessary, locally funded benefits should be supplemented with Federal funds to meet this mandate.
- B. Federal funding, including preferential tax options and direct funding, should be made available to fund the construction and renovation of housing which is affordable for very low income households.

II. The Federal government should not support the reinstitutionalization of homeless people who are mentally ill to alleviate their homelessness. Instead, Federal funds should be made available to support case management services which have been shown to economically enable people with mental illnesses to live independently in almost every case.

III. Single Room Occupancy housing should be treated as an endangered national resource which must be preserved and made habitable.

IV. New housing, for single people as well as families, must be built, incorporating social services where necessary to keep people housed.

V. Federal funds should be made available to local service providers for predevelopment, purchase of land and buildings, construction or renovation and ongoing programs of management and social services.

Senator CRANSTON. I would like now to go to the other end of the table, if I may, and call upon Bevely Lamb, accompanied by Cheria Lamb, who join us today to discuss first-hand the difficulties facing people who are homeless.

STATEMENT OF BEVELY LAMB

Ms. LAMB. Thank you for this opportunity to be heard, Sir.

I agree with Nancy. It is terrible to be homeless. When we were homeless—I have three children. During the time we were homeless, of course, our dream was to find a home. In order to find the home, I either had to get public assistance or a job. I applied for public assistance and was told I'd get something within 30 days, at which time I had $2 in my pocket to last 30 days.

I was lucky enough to fall into the arms of someone that cared, the Valley Shelter. They not only homed my children, but they made them feel welcome. From that, I found a job, in which I was very fortunate. Then I found a slum landlord willing to rent to me because I was new in the town, had three teenagers, heaven forbid, and just new on the job. When I refused to pay rent because my cupboard doors were falling off, there was some kind of garbage in the garbage disposal that didn't work, the elevator door was open with no elevator in it, I was evicted.

Now I live in a motel apartment which I'll never be able to save to get into another apartment for because of being evicted from this apartment.

I feel if there was some way there could be a special lease for people like myself and my children to where the landlord had a right to say, "You're not paying your rent, so leave," if he had a legal platform because I wasn't paying my rent, that he could put me out within 30 days or whatever—I don't know what the laws are—then I could, you know, have a chance to put my children in what would be a home, not an apartment in a motel that from one day to the next is like being homeless, really, because you don't really feel at home because the people that come and go that live in a motel. You know, your kids don't find friends forever. The schools look at you and say, "Well, how long are you going to be in a motel?"

Because I have an income now, I'm having a struggle with Welfare on food stamps. I pay over $800 a month for a one-bedroom efficiency. I receive just a little over $1,000 a month and cannot receive food stamps. That leaves me less than $200 a month to buy food, transportation and clothing for my children. The last time I bought a pair of Levis, it cost me $25. So there's not too many clothes bought in our family.

In the apartment that we were living that we were evicted from, I bought my kids a stereo so they'd have something to call their own, getting started out again. We were broke into three times after Christmas, and everything I had bought for them since we lived in that apartment was taken because the locks on the doors were not fixed and the landlord, everytime you'd complain, would say, "Gee, why didn't you tell me before."

I'm not the only family in that situation. The whole apartment building suffers from that, and there's a lot of that going on.

I work at the shelter, and I see a lot of people come through there, like Nancy was saying, singles that receive $240 or $250 a month. They have no idea where they're going to go when they leave the shelter because they don't have enough money to do anything with.

And it's just—you know, I feel grateful that my children have a roof over their heads now, but there's so much hardship on the streets for the homeless. I'm very grateful—don't take me wrong—with the Government aid there is, but they just have to be reconstructed in some way to help the homeless and those that have—like, if they have been separated from their families or their husbands or whatever. If that family had bad credit, the wife and the children cannot go out and find an apartment because the family had that credit. There has to be some way that people can get that second chance to show they are human beings and they can contribute to the neighborhood, because, I mean, at one time I was a home owner. I know what it's like to have what you need to survive. But you can't get a second chance the way it stands right now, and we all need that.

Thank you.

Senator CRANSTON. Thank you very, very much. You are wonderful to come, and it's very helpful and constructive and also courageous of you to do so.

Cheria, would you like to add anything to what your mother said?

[No audible response.]

Senator CRANSTON. Well, thank you a great, great deal.

Now we will go to Josephine Barbano.

STATEMENT OF JOSEPHINE BARBANO, AARP CHAIRMAN OF THE STATE LEGISLATIVE COMMITTEE

Ms. BARBANO. Mr. Chairman and Congresswoman Pelosi, I am Josephine Barbano, the Chairman of the California State Legislative Committee of the American Association of Retired Persons.

AARP is a membership organization of over 29 million older persons nationwide. We appreciate this opportunity to testify on the future direction of our nation's housing policy.

In the interests of time, I'm just going to talk a few minutes, and I believe you have the full testimony before you.

First of all, we would like to commend you for your leadership in focusing attention on the need of a new National Housing Policy after years of serious neglect. We especially commend your efforts to enlist the ideas of a wide range of proofs to the National Housing Task Force and other forums as you begin the daunting task of constructing a policy to address the future housing needs of all Americans.

To adequately address these housing needs will require strong leadership by the Federal Government and partnership with other levels of Government, private developers and nonprofit sponsors.

AARP's recommendations can be summarized as follows:

Streamline the Section 202 Program to promote effective service to older and disabled residents.

Establish within HUD an assistant secretary for supportive housing. Expand resources for supportive housing in order to maintain the dignity and independence of residents of assisted housing requiring long-term care services.

Provide FHA mortgage insurance to enable older home owners to convert the equity in their homes into cash resources to finance housing and service needs.

Prevent the displacement of thousands of low-income older tenants due to the expiration of rent-assistance contractors and prepayment of subsidized mortgages.

And, finally, strengthen the rental vouchers to target them more effectively to the special needs of the frail elderly and disabled.

Once again, Mr. Chairman, I would like to commend your leadership in looking to the nation's future housing needs and thank you for the opportunity to testify before you today. We look forward to working closely with you and other members of Congress in developing viable solutions to our nation's housing problems.

Senator CRANSTON. Thank you very, very much.

[The complete prepared statement of Josephine Barbano follows:]

STATEMENT

OF

THE AMERICAN ASSOCIATION OF RETIRED PERSONS

ON

THE NEED FOR A NEW NATIONAL HOUSING POLICY

BEFORE THE

SENATE COMMITTEE ON BANKING HOUSING AND URBAN AFFAIRS

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

Presented By

JOSEPHINE BARBANO
Chairman, California SLC

APRIL 7, 1988

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John T. Denning *President* Horace B. Deets *Acting Executive Director*

Mr. Chairman, I am Josephine Barbano, California State Legislative Committee Chairperson for the American Association of Retired Persons (AARP). AARP is a membership organization of over 29 million older persons nationwide. We appreciate this opportunity to testify on the future direction of our nation's housing policy.

First of all, we would like to commend you for your leadership in focusing attention on the need for a new national housing policy after years of serious neglect. We especially commend your efforts to enlist the ideas of a wide range of groups through the National Housing Task Force and other forums as you begin the daunting task of constructing a policy to address the future housing needs of all Americans.

The rapid aging of the American population poses a major challenge to our nation's housing policies. Harvard University's recently released study of "The State of the Nation's Housing" projected that the number of households headed by persons aged 65 and over will rise 48% between 1980 and 2000 -- from just over 16 million in 1980 to nearly 24 million. The University of Michigan has projected an increased need of 9.6 million specialized units for older persons during the same period, but foresees production by the private market of only 6.8 million units, leaving a shortfall of 2.8 million units.

Those who are likely to be left out by the private market are the oldest, the poorest, and the frailest who have the most acute housing needs. The Task Force report notes that 47% of low-income homeowners were older people. These data confirm the conclusions of the Harvard report that found older homeowners to be the most likely to occupy structurally inadequate housing of any age group. The Harvard study also found that older renters continue to pay the highest percentage of their incomes on rent. In fact, other research indicates that the median rent of an older woman living alone consumes nearly one-half of her income.

To adequately address these housing needs will require strong leadership by the federal government in partnership with other levels of government, private developers, and nonprofit sponsors. AARP's recommendations can be summarized as follows:

- Streamline the Section 202 program to promote effective service to older and disabled residents;
- Establish within HUD an Assistant Secretary for Supportive Housing and expand resources for supportive housing in order to maintain the dignity and independence of residents of assisted housing requiring long-term care services;
- Provide FHA mortgage insurance to enable older homeowners to convert the equity in their homes into cash resources to finance housing and service needs;
- Prevent the displacement of thousands of low-income older tenants due to the expiration of rent assistance contracts and prepayment of subsidized mortgages; and
- Strengthen rental vouchers to target them more effectively to the special needs of the frail elderly and disabled.

Section 202

The Section 202 program of elderly and handicapped housing has been the most successful model of federal cooperation with nonprofit housing sponsors. AARP is gratified to see that the Task Force report envisions the continuation of the Section 202 program. The need for specialized housing for older people calls for funding at least 20,000 units per year as suggested by the White House Conference of the Aging in 1981.

However, Congress should streamline the program to eliminate provisions that have increased program costs and frustrated incorporation of design features that improve service delivery. Specifically, AARP recommends replacing the current duplicative financing mechanism of loans and Section 8 subsidies with a deferred payment loan plan. Under this plan, the loan would be forgiven over a 40-year period as long as the sponsor continued to serve low-income older and handicapped persons. Large Section 8 subsidies would be unnecessary because costs would no longer reflect debt servicing.

In addition, sponsors would be expected to make a greater contribution in cash or in kind. In exchange for this contribution, sponsors would be given greater latitude to make basic decisions over such issues as size or style of units, amount of common space, and facilities provided.

Supportive Housing

Housing for the elderly, handicapped and homeless should be recognized as a distinct and specialized area within federal housing policy. HUD's current structure lacks a focal point for the integration of housing policy with service programs aimed at meeting the needs of such populations. AARP supports establishment of an Office of the Assistant Secretary for Supportive Housing to administer programs for the elderly and handicapped and coordinate housing with service programs.

One of the great challenges facing public and assisted housing managers is providing for the special needs of older tenants who are "aging in place." Currently, almost 40 percent of all households in public housing and 50 percent of all housing in Section 8 new construction are elderly. It is estimated that about 24 percent of elderly persons in federally assisted housing -- some 165,000 persons -- have problems performing some routine daily tasks. Costly institutional care is too frequently the only alternative to their current residence.

Housing must be an important part of a comprehensive long-term care policy -- not only for the elderly but also for others requiring long-term care, such as the handicapped, the developmentally disabled, and the chronically mentally ill. Fortunately, successful models exist for the integration of housing and services to meet long-term care needs. Particularly promising has been the federal Congregate Housing Services Program (CHSP), which has been operating on a demonstration basis at 61 sites nationwide for the elderly and handicapped.

According to data from an independent evaluation, the expected institutionalization rate among residents of facilities for the elderly was cut nearly in half by the introduction of CHSP services. Equally impressive were the deinstitutionalizing effects of having CHSP services. At sites for older residents, administrators were six times more likely to admit residents from nursing homes when they had CHSP services to offer. At sites for the developmentally disabled, the deinstitutionalization rates are often near 100%. Supportive housing modeled after the CHSP should be greatly expanded for these and other populations requiring both housing and long-term care assistance.

AARP also proposes two demonstration programs that would link existing HUD resources with state and local initiatives aimed at reclaiming unused properties and supportive residential facilities for the elderly and handicapped. We also believe that the low-income tax credit should be made available to help finance supportive housing development. The Treasury Department's current interpretation of the Tax Reform Act of 1986 excludes projects providing services from using the credit. Further, Congress should provide a means for nonprofit sponsors to sell credits to investors while retaining control of the properties.

Assisting Homeowners through Home Equity Conversion

Home equity conversion enables older homeowners to convert the equity in their homes to income while still living in their residences. For older homeowners who are "asset rich and income poor," such opportunities can mean the difference between having adequate resources for long-term care, home maintenance, and other needs and doing without.

AARP applauds the initiation of a federal demonstration program to provide FHA insurance to reverse mortgages, and we urge the expansion of these opportunities through federal programs and the private market. The Association strongly believes, however, that the use of home equity should be a voluntary decision that should not affect eligibility for Medicaid and other means-tested programs.

Maintaining the Existing Stock of Assisted Housing

AARP is very concerned about the potential impact of prepayment, of the expiration of Section 8 contracts and the sale of public housing units. Older tenants who live in assisted projects often lack the ability to easily relocate or to pay substantially higher rents.

AARP applauds the efforts of the National Housing Task Force to bring attention to this issue. The inclusion of prepayment provisions in Title II of the recently passed Housing Bill is an important first step to preserve assisted housing units. We call upon Congress to provide additional budget authority and appropriations to maintain at-risk units as low-income housing. AARP also opposes the sale of public housing units when older residents would be displaced. Such units should, instead, receive modernization and retrofitting dollars to provide for the rapid aging in place of many residents.

Rental Vouchers

The Administration's emphasis on housing vouchers has not received an enthusiastic response from elder housing advocates because vouchers generally offer little help to older, less mobile persons needing specialized housing. AARP proposes changes to the voucher program that would combine a specified number of vouchers with counseling and supportive services targeted to low-income individuals with multiple disabilities and those who live alone with limited support.

Conclusion

Once again, Mr. Chairman, I would like to commend your leadership in looking to the nation's future housing needs and thank you for the opportunity to testify before you today. We look forward to working closely with you and other members of Congress in developing viable solutions to our nation's housing problems.

Senator CRANSTON. We now go to Norma.

STATEMENT OF NORMA JEAN VESCOVO, EXECUTIVE DIRECTOR, DARRELL McDANIEL INDEPENDENT LIVING CENTER

Ms. VESCOVO. Senator Cranston, I do thank you for having us here today, and I definitely thank you for including the disabled in the issues that so vitally need to be addressed here.

When we're talking about affordability, we're talking about two things. We're talking about affordability, but we're also talking about accessability. And that is a major problem in working with individuals with disabilities in the housing market.

We have approximately 4,900 emergency shelter beds here in Los Angeles alone that are functioning as far as emergency shelter in general, and yet only six that we house are in fact accessible to individuals with disabilities. Over $7 million was given to this State that are going into those particular programs from the Federal Government this last year, and that $7 million from the Federal Government means it's going into inaccessible shelters, and that is one thing that needs to be corrected.

During the years that I have been the director of the Darrell McDaniel Independent Living Center, during this last year we served over 4,000 individuals, and in our shelters we have about 17 percent of the people that are coming in that have no income at all. Approximately 20 percent of those individuals are on SSI benefits. And, again, rent in the San Fernando Valley being one of the highest rent areas, runs around $600 for a single bedroom, if you can find it and if it is accessible. It is a major problem.

The vets have additional problems. If you're a disabled veteran, we've had more problems dealing with disability. One is the fact that if they're in the hospital at all and their check comes from the Veterans Administration, it's going to be sent back and it's very difficult to be replaced. We're lucky if we can find it in the year. So usually we end up with that individual homeless at least a month before we can get their next month's check. This is something that is really a vital problem in dealing with homeless veterans that are disabled.

We also, of course, have the discrimination factors that always go along with both poor as well as disabled. The AIDS factor now has been a real problem that has come to our door, and if you are a disabled vet going in the hospital, one of the first things the landlord thinks is it's AIDS, and if they can possibly move them out, they do. So that has been a major problem.

The fact that income for the individual on SSI, as an example, is so low, it is a problem. But in dealing with HUD housing, about 350 units were scheduled in the HUD projects in 1984, and yet only twenty-five of those units, approximately 7 percent, were actually designed for an individual with a disability. But they are not required to rent to an individual with a disability. So that factor needs to be changed in the HUD regulations.

Also, of course, one of the recommendations that we'd like to make is the fact that, if we're going to have, we should have at least a minimum of 10 percent of the apartments being constructed under any HUD or any federally-supported funding should be accessible. We also are saying that it's not to be just designed for the disabled, but rented to the disabled.

There should be a moratorium on the HUD low-income housing projects that are now reaching near twenty years, and there should be a fact-finding committee of some kind to make sure that we have determined what this is going to mean if those buildings are going to be taken over by landlords and also to establish some kind of transitional housing.

Any agency receiving Federal funds for shelters, such as the Stewart B. McKinney funds, should be mandated to be accessible.

There should be—the adaptable codes that have been accepted by the State of California have not worked and I would hope would not be a part of the new federal housing consideration. Emergency funds should be available to veterans and others who have their checks lost, stolen or returned. There should be—even if it's a voucher they can receive that can help cover their housing.

There should be assistance for parents who have disabled adults where they are the person that is responsible totally for that individual, where we again have a problem, if that person is in a HUD house, HUD housing or 202 funding, the parent is no longer eligible for that housing when their disabled child becomes an adult. They are moved out, and there's no place for them to move. Usually that parent has no skills, no job experience because of them being there to take care of that individual.

The other—as far as the report is concerned, we did not get a copy of the report, so we do have—I did only have a copy of your summary. And I did need a copy of that.

But under that, definitely, the Federal assistance—the fact that the HUD housing, the 202 funding is going to be cut is an important factor that was mentioned in your proposal.

Anything dealing with tax credit has to take into consideration, as was mentioned earlier, the fact that many people that we serve are in fact extremely low income. They are not quite poverty, almost poverty, and—or less no income at all. About 240,000 just in the Los Angeles County alone, receive SSI, which means they are below $575 a month. So that gives you some kind of an idea of that number.

Thank you.

Senator CRANSTON. Thank you very much, Sylvia.

[The complete prepared statement of Norma Jean Vescovo follows:]

DARRELL McDANIEL
INDEPENDENT LIVING CENTER, INC.

Assisting Persons with Physical and Sensory Disabilities Since 1976
Serving the San Fernando and Antelope Valleys, Kern County, Burbank and Glendale

NORMA JEAN VESCOVO
Executive Director

p105

April 6, 1988

Honorable Senator Alan Cranston:

The enclosed testimony is for the joint hearing of the Senate Subcommittee on Housing and Urban Affairs and the House Subcommittee on Housing and Community Development on Thursday, April 7, at 9:00 A.M. at the Wadsworth Theatre, Veterans Administration Complex.

Sincerely,

Norma Jean Vescovo
Executive Director

NJV:cp

Accredited by the Commission on Accreditation of Rehabilitation Facilities

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Lancaster, CA 93534
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HOW TO BECOME A HOMELESS DISABLED PERSON IN THREE EASY STEPS

1. Become eligible for SSI benefits of $575 a month.
2. Rent a one bedroom apartment for $500.
3. Pay utilities and buy food. In 3 months you'll no longer be able to pay rent.

Congratulations ... you are now one of the homeless disabled persons in California.

How many people are we talking about? According to the Social Security office, there were 240,902 persons with disabilities receiving SSi benefits as of December, 1986 alone.

I'm Norma Vescovo, executive director of the Darrell McDaniel Independent Living Center. Our centers provide services to people with physical, sensory and developmental disabilities. Last fiscal year, we provided services to 4,137 clients from our offices in Van Nuys, Bakersfield and Lancaster.

Our services are designed to build and enhance the skills necessary for independent life management.

FACTS:

There are 4,947 emergency shelter beds in Los Angeles. Our emergency shelter has the only six beds accessible for those persons with physical disabilities. Why? Because the State of California exempted these shelters when they first opened from complying with accessibility laws. This hasn't changed, and yet, last year California received $7,064 in federal funds specifically for the homeless in these inaccessible shelters.

In 1984-85, 11% of the individuals applying for emergency housing services at the DMILC had no income. In 1985-86, that figure increased to 17%. In addition, 20-25% of the homeless disabled applying for shelter are receiving SSI benefits.

Fifteen percent of those who come to us for shelter are receiving disabled veterans benefits and:

- if they're hospitalized when their check arrives, and it's returned, it may take one or more years for replacement.
- illness makes them suspect as an AIDS patient and subject to further discrimination.

Four percent of those applying for shelter are disabled young adults with a single parent. Their parent:

- has full responsibility of their disabled dependent. They may also lack the skills and knowledge of gaining employment and, if they do find work, have the responsibility of obtaining personal or extensive care for their dependent.
- is generally not old enough to receive any benefit themselves, and because their child is an adult, they cannot receive benefits otherwise available.

BACKGROUND:

Homelessness is a direct result of extreme cuts made in ACCESSIBLE federal housing, combined with the high COST of living.

COST:

- Ten years ago, housing costs were estimated at 25% of income. Today the lending institutions estimate 30%. In actuality, it's closer to 50%. Using Los Angeles as an example, the median income (See Exhibit A) for a family of four is $33,200 annually. A realistic monthly rent for them is $1300.
- SSI income for a person with a disability is approximately $575 a month. Fifty percent is $287.50.
- A one bedroom apartment in an average Los Angeles area rents at $600. In a low-rent, high-crime area it would run $450-500.

ACCESSIBILITY:

- Of 350 units scheduled for HUD projects in 1984, only 25 units - or 7% - were specifically designed for the disabled. If the federal and state building codes were strictly enforced, one out of every ten apartments would be reasonably accessible, and ten out of 100 usable by someone in a wheelchair.
- HUD funding for low-income new housing starts ended in 1985. Additionally, housing projects built 20 years ago through HUD financing can now be pulled from low-income market use if the builder chooses to pay off the loan.

ACCESSIBILITY (Continued)

- In addition, a person in a HUD building who, at a later point, needs live-in attendant care, becomes ineligible and must move.
- If two disabled people live together to share expenses, their benefits are reduced.
- When a disabled child becomes an adult, the single parent cannot remain in the HUD building.

RECOMMENDATIONS:

1. HUD FINANCING should be restored with the following stipulation: A minimum of 10% of the apartments constructed using HUD funds must be wheelchair accessible and that those units must be rented to persons with disabilities.
2. A MORATORIUM on the HUD low-income housing projects now reaching 20 years old should be instituted. A fact-finding committee should be appointed to determine the affect of losing these units on the current renter population and establish transitional housing.
3. ANY A receiving federal funds for shelter programs, such as the Stewart B. McKinney funds, should be mandated to have programs that are fully accessible, or a written plan to become accessible over a three year period.
4. ADAPTABILITY CODES accepted by California have not been successful and should not be accepted at the federal level.

5. EMERGENCY FUNDS should be made immediately available to veterans who are homeless because of lost, stolen or returned checks.

6. A SAFETY NET needs to be provided to single parents who have disabled adult dependents.

7. QUALIFIED PAYEES - A contract needs to be given to an agency to be responsible for obtaining qualified payees for persons with disabilities on SSI.

- - - - -

Preventative measures are the key factors in dealing with the homeless person with disabilities. When the person on SSI experiences the "relief" of not having any responsibilities connected to the income they receive, that person will drop out of the mainstream of life. It will take months of rehabilitation to bring them back to society.

- - - - -

We thank you for your consideration of our recommendations and we welcome any questions you may have.

DARRELL McDANIEL INDEPENDENT LIVING CENTER
14402 Haynes Street, I03
Van Nuys, CA 91401
Norma Jean Vescovo, Executive Director (818) 785-6934

EXHIBIT A

Area	Fiscal 1987 Median Income		INCOME LIMITS							
			1 Per	2 Per	3 Per	4 Per	5 Per	6 Per	7 Per	8 Per
Southern California Metropolitan Areas										
Anaheim-Santa Ana PMSA (Orange County)	$40,400	Lower Income	21,300	24,300	27,350	30,400	32,300	34,200	36,100	38,000
		Very Low Income	14,500	16,550	18,650	20,700	22,350	24,000	25,650	27,300
Bakersfield MSA (Kern County)	$28,100	Lower Income	15,750	18,000	20,250	22,500	23,900	25,300	26,700	28,150
		Very Low Income	10,200	11,650	13,100	14,550	15,700	16,900	18,050	19,200
Los Angeles-Long Beach PMSA (Los Angeles County)	$33,200	Lower Income	18,600	21,250	23,900	26,550	28,200	29,850	31,550	33,200
		Very Low Income	12,550	14,350	16,150	17,950	19,400	20,800	22,250	23,700
Oxnard-Ventura PMSA (Ventura County)	$36,700	Lower Income	20,550	23,500	26,400	29,350	31,200	33,000	34,850	36,700
		Very Low Income	12,850	14,700	16,500	18,350	19,800	21,300	22,750	24,200
Riverside-San Bernardino PMSA (Riverside, San Bernardino Counties)	$28,800	Lower Income	16,150	18,450	20,750	23,050	24,500	25,950	27,350	28,800
		Very Low Income	10,150	11,600	13,050	14,500	15,650	16,800	18,000	19,150
San Diego MSA (San Diego County)	$31,400	Lower Income	17,550	20,100	22,600	25,100	26,650	28,250	29,800	31,400
		Very Low Income	12,000	13,700	15,450	17,150	18,500	19,900	21,250	22,650
Santa Barbara-Santa Maria-Lompoc MSA (Santa Barbara County)	$37,400	Lower Income	20,950	23,900	26,900	29,900	31,750	33,650	35,500	37,400
		Very Low Income	13,100	14,950	16,850	18,700	20,200	21,700	23,200	24,700
Southern California Non-Metro Counties										
Imperial County	$23,300	Lower Income	13,050	14,900	16,800	18,650	19,800	21,000	22,150	23,300
		Very Low Income	10,100	11,550	13,000	14,450	15,600	16,750	17,900	19,050
Inyo County	$26,200	Lower Income	14,650	16,750	18,850	20,950	22,250	23,550	24,900	26,200
		Very Low Income	10,200	11,650	13,100	14,550	15,700	16,900	18,050	19,200
Mono County	$28,800	Lower Income	16,150	18,450	20,750	23,050	24,500	25,950	27,350	28,800
		Very Low Income	10,200	11,650	13,100	14,550	15,700	16,900	18,050	19,200
San Luis Obispo County	$29,100	Lower Income	16,300	18,650	20,950	23,300	24,750	26,200	27,650	29,150
		Very Low Income	11,550	13,200	14,850	16,500	17,800	19,150	20,450	21,800

Senator CRANSTON. Now we come to our final witness, Sylvia Ruiz and miraculously, we're going to hit our deadline and end at 12:00.

STATEMENT OF SYLVIA RUIZ, PRESIDENT, TIERRA CONCEPTS (PRIVATE CONSULTANT)

Ms. RUIZ. And I'm going to be very brief.

I wanted to take an opportunity to thank you for inviting me today and also for the opportunity to really commend you for taking housing back to our consciousness. I mean, it's something that needs to be addressed immediately.

And just to bring home the point, I have taught for a number of years at a university across town that I won't mention since I happen to be in our rival camp right now, but one of the questions that I always pose to my housing seminar is how many of you feel that you have a constitutional right to housing. These are college students, some of them already working the business world, and every semester at least 75 percent of the class raises their hand and says, "Yes, I have a constitutional right to housing."

Well, after working in Skid Row for several years, I can tell you that whether you're at the college level or working with people that are homeless, that expectation is so ingrained in our society that people do feel that they have an absolute right to housing, so that we're addressing it is really important.

I think the point that I want to make most emphatically right now is the need to coordinate at all levels of government, whether it's at the federal, the state or the local level. To give you an example, Nancy was talking about the income that you receive if you're a single person receiving public assistance. The rate that the county pays for vouchers is $8 a night, so guess what, the monthly rate that most SRO's charge is $240 a month. Their stipend is $258 a month, which leaves those individuals with $18 to get through the month. It's not surprising they learn economics real fast. And what do you do? You spend a couple of weeks, if you can afford it, in an SRO and then two weeks you spend on the street. And then the cycle begins again because when the check comes to that hotel and you're not living there, it goes back to the county. So the county—that's an example where the county and the city needed to get together and determine how we're going to do this so that people have an opportunity to be there.

I'm also currently working on a homeless component for the regional planning agency in Southern California. The most recent housing legislation requires municipalities to address the issue of homelessness. That's all the legislation says: you must address the issue of homelessness. There is no structure, no direction, no guideline as to how cities that are facing a very recent but very fast-growing problem in their communities are to look at the problem. So, again, another example. Fortunately, SKAG (phonetic) took the initiative, is now developing a model to send out to cities.

So my point is that I think we need to have greater cooperation at all levels of Government.

Thank you.

Senator CRANSTON. Thank you very much, Sylvia.

I thank all of you for your very, very helpful testimony.

I want to thank you, Nancy, for your presence. I want to thank all of you who have been here today and everybody who has helped put this together and who are concerned about this problem. You are going to help us find ways to do it.

Nancy, do you have any last words?

Representative PELOSI. Well, I just want to thank you, Alan, but make sure that you have the last word on this. I do want to thank our last panel for their first-hand report on what they see this situation to be, and assure them that in Congress that any decisions that we make in this regard will be with respect for the dignity of every person, every poor person, every disabled person, over six million in the United States, every elderly person, every person in need of housing, and that we will attack the underlying causes of the housing and homeless situation, as well.

Again, I thank Senator Cranston for his invitation to be here today on behalf of Chairman Gonzalez of the House Subcommittee on Housing and thank you for making housing the issue that it needs to be. As I said earlier, it's very personal with every one of us. Thank you, Senator Cranston.

Senator CRANSTON. Thank you all. We stand adjourned.

[Whereupon, at 12:00 noon, the Joint Committee was adjourned.]

[Additional material supplied for the record follows:]

APA
American Planning Association
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STATEMENT OF
THE AMERICAN PLANNING ASSOCIATION
ON A
NATIONAL HOUSING POLICY

PREPARED FOR THE
UNITED STATES SENATE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
SENATOR ALAN CRANSTON, CHAIRMAN
SENATOR ALFONSE M. D'AMATO, RANKING MINORITY MEMBER

OCTOBER 5, 1987

Senators Alan Cranston and Alfonse M. D'Amato and the Senate Subcommittee on Housing and Urban Affairs have given this country a great opportunity -- the opportunity to rethink and redirect our national housing policy. The American Planning Association is pleased to be invited to join in this important effort.

The Federal retrenchment from support of housing programs during the past six years has, in our opinion, proven two things:

1. **That Federal support is absolutely essential to meet the housing needs of low- and moderate -income households; and**
2. **That tremendous capacity exists at the state and local levels to design and implement creative housing programs which are responsive to local conditions, needs and opportunities.**

Our new housing policy must recommit Federal resources toward housing needs, and must take advantage of the demonstrated state and local capacity to produce and maintain housing for low- and moderate-income households.

I. BASIC PREMISES

The American Planning Association's recommendations for a new housing policy are based on the following premises:

A. Decent housing in a suitable living environment is a basic human right to which all Americans are entitled.

B. The private sector is, and will continue to be, the primary provider, owner, and manager of housing; government's role is catalytic, supplementary, and regulatory, ensuring that the cumulative effect of individual housing market decisions does not deprive any segment of society of the opportunity to live in decent housing.

C. The Federal government must increase and redirect the resources which it currently devotes to housing, seeking partnerships with state and local governments and with the private sector to maximize the impact of the limited funds which can be made available.

D. A primary role of the Federal government is to address the root causes within our economic system which create the gap between housing cost and the ability to pay for so many American households.

E. It is at the state and local levels that we are best able to design and implement programs to produce and maintain housing which is affordable to low- and moderate-income households.

F. It is more cost effective to maintain existing housing and its affordability than to produce new housing.

G. Sound planning, which can coordinate the vast array of local housing programs and providers toward common objectives, is a critical ingredient of an effective housing strategy.

II. RECOMMENDED FEDERAL ROLE

Based upon the above premises, the American Planning Association recommends the following four-fold role for the Federal government in meeting the housing needs of low- and moderate-income households:

A. **Insure that very low-income households have the minimum resources necessary to afford decent housing.**

We recommend that the rental housing certificate program be retained and expanded as needed. Consideration also may be given to combining housing certificates with shelter allowances under the welfare system to provide a single more efficient and more equitable financial support program for the most needy of our society. Programs must be designed and administered such that homeless persons are not excluded from eligibility.

B. **Remove systemic incentives to speculation and overconsumption, and provide incentives for affordable housing production and maintenance.**

In its regulation and stimulation of the national economy, the Federal government must not contribute to those forces which tend to continuously drive up the cost of housing. To the contrary, steps should be taken to stimulate construction and maintenance of affordable housing. We recommend the following as the types of taxation and regulatory actions which should be taken to support a new national housing policy:

1. Extend the tax benefits of homeownership to lower income homeowners by allowing the taxpayer to choose either the full homeowner deduction or a partial tax credit for mortgage interest and property tax payments.

2. Remove the homeowner tax deduction for second homes.

3. Extend the straight-line depreciation period for rental property.

4. Permit depreciation allowance for owners of 5 or more rental units only if they submit every 3 years a certification from a local government, or, in the absence of local capacity, from a licensed engineer or architect that the units comply with a model housing code recognized by the Council of American Building Officials; and only if they submit evidence upon sale that tenant associations were given the right of first refusal to purchase.

5. Establish a high capital gains tax for short-term resale of rental property which declines on a sliding scale to the present capital gains tax rate as the length of ownership increases.

6. Remove impediments to utilization of the low-income housing tax credit.

7. Classify tax exempt revenue bonds used to finance housing for low- and moderate-income households as essential function bonds, thereby eliminating the provisions which subject such bonds to state allocation caps and to the Alternative Minimum Tax.

8. Provide controls and incentives in regulation of credit institutions to insure that an adequate share of private credit continues to be directed toward construction and rehabilitation of affordable housing.

9. Reject all proposals to privatize the Federal Housing Administration and Federal agencies which provide a secondary market for housing finance.

C. **Preserve the affordability of existing Federally subsidized housing.**

The current policy of the Federal government is to divest itself of a direct role in producing and managing low-income housing. This withdrawal should not be so precipitous as to threaten the existing stock of housing for low-and moderate-income households. Furthermore, we should not allow the 1.4 million units of housing which are currently available to needy households through HUD-assisted programs, such as Section 8, Section 221(d)(3) and Section 236, to disappear as private developer contracts expire. Therefore, we recommend that the Federal government:

1. Sell no existing public housing project until a thorough study has demonstrated that the financial and management capability will exist to assure the long-term availability of such units to tenants similar in income to present tenants. Existing public housing should be modernized and rehabilitated before it is turned over to a local government, a tenant association, or a nonprofit organization.

   If turned over to a tenant association, the Federal government should assist in the formation of a limited equity co-op or mutual housing association to guarantee the long-term affordability of the units.

2. Require all private owners of existing Federally subsidized housing to provide a six-month notice to tenants and to local government of their intent to convert the units to market rate housing and to give the right of first refusal to purchase the property to the building's tenant association, a local government, a public authority, or a nonprofit organization. If displacement should occur, the private owner should be required to provide relocation assistance.

   In addition, the Federal government should provide the financing and technical assistance which may be needed to create a viable limited equity co-op or mutual housing association to guarantee the long-term affordability of the units.

D. Delegate to state and local governments the responsibility and resources to produce and maintain affordable housing.

During the past six years, state and local governments have valiantly attempted to fill the void created by the withdrawal of the Federal government from housing programs. The vast array of creative programs fashioned by public and nonprofit agencies to meet the specific needs of their constituencies has demonstrated that housing production and maintenance programs are most effectively designed and implemented at the state and local levels. Moreover, it is at the local level that authority rests for the regulation of housing production and maintenance, through tools such as subdivision ordinances, zoning codes, development and design standards, and code enforcement.

The existence of public and private agencies which are implementing effective housing programs at the state and local levels offers an unprecedented opportunity to leverage limited new Federal funding to maximum impact. We, therefore, recommend two new incentive housing block grant programs, to states and to local governments, as follows:

1. Create a new state incentive housing block grant program.

   A portion of the funds should be allocated to every state based upon relative need. The remainder of the funds, which should become the major portion of the block grant program over time, should be allocated on an incentive basis to states to the extent that they have raised matching funds for low-and moderate- housing through mechanisms such as state housing trust funds, general obligation bonds, or general fund appropriations. (It is recognized that direct Federal support will be required to meet the housing needs of low- and moderate-income Native American households residing within Indian reservations and villages, and may be required to meet the housing needs of rural households through a strengthened Farmers Home Administration.)

2. Expand the Community Development Block Grant (CDBG) Program.

   The CDBG program should be expanded to include a local housing block grant element which would provide additional funds to match funds raised locally for low- and moderate-income housing. The expanded program might be called the Housing and Community Development Block Grant Program, reflecting a requirement that the major portion of the total funds (say, not less than 70 percent) be devoted to housing for low-and moderate-income households. As with the present CDBG program, funds should be allocated directly to metropolitan cities and urban counties, and through the states to smaller cities.

3. Permit state and local governments to directly utilize housing block grant funds, or to allocate them to private and non-profit housing developers and to housing authorities, for a wide range of activities which benefit housing for low- and moderate-income households. Included would be grants and loans for construction, rehabilitation and improvement of housing, home ownership and rental assistance, code enforcement, provision of emergency shelter and technical assistance/seed money for non-profit community based sponsors. Block grant funds should be allowed to be combined with other housing funds, as in the provision of "gap financing" to leverage bond proceeds and conventional financing.

4. Require each state or local recipient to prepare and adopt a housing plan before the incentive funding is released, and to update such plans at five-year intervals. The proposed planning process is intended to direct the expenditure of limited funds to the most effective actions, to coordinate the vast array of public and private actions toward common objectives, and to provide a mechanism for public participation and review. The state plan should contain sub-plans by market regions, which could be prepared by or in cooperation with existing regional planning agencies. All plans should be part of and/or consistent with the comprehensive plans for each jurisdiction. Each plan should address, at a minimum, the following:

   a. Analysis of current housing problems and issues, including gaps between supply and demand, mismatches between cost and ability to pay, overcrowding, and physical condition.

   b. Long-range forecast of housing demand by type and price range. These forecasts should take into account a fair-share allocation among communities of housing for low-and moderate-income households. The fair-share approach should be developed as part of the state plan and be incorporated in a consistent manner in all local plans.

   c. Estimate of specific housing needs during the next five years to serve all segments of the population, including low- and moderate-income families, the elderly, the handicapped, and the homeless. The estimate should include a reasonable commitment toward meeting the long-range fair-share allocation.

   d. Analysis of obstacles to development, maintenance, and improvement of housing for low- and moderate-income households, including local land use and building codes, cost and availability of mortgage loans, lack of developable land, etc.

   e. Long-range goals and short-range objectives. The objectives should be in the form of specific, quantified (where possible) targets for the next five years.

   f. Recommended action strategy. The set of recommended actions to achieve the five-year objectives should be specific as to responsible agency, funding source, and targeted output.

g. Citizen participation. The process and products of citizen participation in preparation of the plan should be documented.

h. Displacement and other negative impacts. The plan should seek to minimize and/or mitigate its effect upon displacement and its other negative impacts upon the overall environment. It should include an adequate relocation assistance program.

ABOUT THE AMERICAN PLANNING ASSOCIATION

The American Planning Association (APA) is a national organization of 21,000 members, including public and private planners and elected and appointed officials at all levels of government as well as educators, students and interested citizens. APA members belong to 45 chapters covering every state and Congressional district. They can also belong to 15 divisions focusing on such functional areas as Housing and Human Services.

The primary objective of APA is to advance the art and science of planning for the improved development of the nation and its states, regions and communities.

APA was formed in 1978 through the consolidation of the American Institute of Planners, founded in 1917, and the American Society of Planning Officials, founded in 1934.

Within APA is the American Institute of Certified Planners which focuses on professional development. Members of AICP are distinguished by having met experience requirements and by having passed an examination on planning principles and practices.

The American Planning Association and its chapters have wholeheartedly supported legislation at the national and state levels to make housing affordable for all Americans and, in particular, for low- and moderate-income families.

APA's research activities have also been directed towards providing state and local governments with practical measures that they can adopt to increase the affordability of housing. In recent years, APA has developed and disseminated information on such topics as:

Planning Agency Ideas for Encouraging Low- and Moderate-Income Housing. 1977.

Integration in Housing: A Plan for Racial Diversity in Two Villages. 1978.

Inclusionary Zoning Regulations: An Update. 1980.

Low- and Moderate-Income Housing: Part 1. Increasing the Supply and Accessibility. 1980.

Low- and Moderate-Income Housing: Part 2. Conserving What We Have. 1980.

Accessory Apartments: Using Surplus Space in Single-Family Houses. 1981.

Zero Lot Line Development. 1982.

Changing Development Standards for Affordable Housing. 1982.

Increasing Housing Opportunities for the Elderly. 1983.

Affordable Single-Family Housing: A Review of Development Standards. 1984.

Shared Housing: An Affordable Alternative. 1985.

Inclusionary Zoning Moves Downtown. 1985.

Regulating Manufactured Housing. 1986.

* * *

This statement on National Housing Policy was prepared by a Special Committee of the American Planning Association and was reviewed and commented upon by its Board of Directors, its Chapter Presidents and its Division Chairs.

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MADGE L. SCHAEFER
SUPERVISOR, SECOND DISTRICT
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STATEMENT OF MADGE L. SCHAEFER
VENTURA COUNTY SUPERVISOR, SECOND DISTRICT
BEFORE A JOINT HEARING OF THE
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
AND
HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
ON THE HOMELESS

April 7, 1988
Veterans Administration Complex
Los Angeles, California

HONORABLE MEMBERS OF THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS AND HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT; DISTINGUISHED PANEL MEMBERS; HONORED GUESTS AND VISITORS.

MY NAME IS MADGE SCHAEFER. I AM A VENTURA COUNTY SUPERVISOR REPRESENTING THE SECOND DISTRICT, WHICH INCLUDES THE CITIES OF THOUSAND OAKS AND PORT HUENEME, AND THE COMMUNITIES OF NEWBURY PARK, OAK PARK, BELL CANYON AND THE SOUTH COAST REGION.

I WISH TO EXPRESS MY GRATITUDE TO SENATOR CRANSTON FOR EXTENDING AN INVITATION FOR ME TO TESTIFY BEFORE THIS HEARING. I APPRECIATE THIS OPPORTUNITY BECAUSE I BELIEVE I HAVE SOMETHING IMPORTANT TO SAY ABOUT THE HOMELESS CRISIS.

THE APPALLING SPECTACLE OF HOMELESS PEOPLE WANDERING THE STREETS AND SLEEPING IN DOORWAYS, PARKS AND BACK ALLEYS HAS JUSTIFIABLY ALARMED THE PUBLIC AND ELECTED OFFICIALS FROM AROUND THE COUNTRY. WE SHARE THIS CONCERN AND ARE CONTINUALLY SEARCHING FOR AN ANSWER TO THE QUESTION, "WHAT CAN LOCAL GOVERNMENT DO TO MEET THE NEEDS OF THE HOMELESS IN THE COMMUNITY?"

IN VENTURA COUNTY THE CURRENT HOMELESS POPULATION IS CONSIDERED TO BE APPROXIMATELY 4500 PEOPLE. IN 1984 THE HOMELESS POPULATION WAS ESTIMATED AT 2000 PEOPLE. THESE FIGURES ARE SOMEWHAT STARTLING SINCE THEY REFLECT A 225% INCREASE IN THE NUMBER OF HOMELESS PEOPLE WITHIN THE COUNTY. JUST AS IMPORTANT IS THE FACT THAT HOMELESS SERVICE PROVIDERS ARE WITNESSING AN INCREASE IN REQUESTS FOR HELP JUST SINCE THE DATE OF THIS MARCH 1988 SURVEY.

ZOE CHRISTIAN CENTER, IN THEIR FOUR FACILITIES, HOUSE ABOUT 212 PEOPLE, BUT GENERALLY TURN AWAY ANOTHER SEVEN TO TEN FAMILIES EACH NIGHT.

F.E.M.A. FUNDS ARE FURNISHED THROUGH VARIOUS ASSISTANCE AGENCIES TO HELP WITH FOOD AND SHELTER. IN 1987, THE COUNTY'S ALLOCATION WAS $345,287.00 WITH MORE THAN 32% GOING TO PROVIDE SOME 3,750 SHELTER NIGHTS. ANOTHER $129,382.00 OR 37% WAS USED TO STAVE OFF EVICTION THROUGH RENT OR MORTGAGE PAYMENT ASSISTANCE. FOR 1988, OF THE TOTAL $356,316.00 F.E.M.A. ALLOCATION, $180,500.00 IS EARMARKED FOR SHELTER, $63,880 WILL HELP PREVENT EVICTION WHILE 31% WILL GO TOWARDS FOOD ASSISTANCE.

IN JANUARY 1988, THERE WERE 46 FAMILIES LIVING IN COUNTY AND AREA PARKS. TO ADDRESS THE PROBLEM OF HOMELESS FAMILIES LITERALLY SETTING UP HOUSEKEEPING IN COUNTY PARKS, THE BOARD OF SUPERVISORS ESTABLISHED A 30-DAY YEARLY MAXIMUM STAY.

THE AID FOR FAMILIES WITH DEPENDENT CHILDREN (AFDC) HOMELESS ASSISTANCE PROGRAM, DURING ITS FIRST MONTH OF OPERATION IN FEBRUARY 1988, DISTRIBUTED SOME $21,345.00 IN BOTH PERMANENT AND TEMPORARY HOUSING ASSISTANCE THROUGHOUT THE COUNTY. THROUGH MARCH 1988, THAT CUMULATIVE YEAR-TO-DATE AMOUNT HAD GROWN TO $127,399.00. APPROXIMATELY 246 FAMILIES HAVE BEEN ASSISTED THROUGH THIS PROGRAM.

IN ADDITION, THE SALVATION ARMY ASSISTS ABOUT 10 HOMELESS FAMILIES DAILY WITH FOOD AND SHELTER.

THE COUNTY MENTAL HEALTH DEPARTMENT ESTIMATES THAT THERE ARE SOME 800 MENTALLY DISABLED HOMELESS PEOPLE IN THE COUNTY WHO HAVE BEEN DEINSTITUTIONALIZED AND SIMPLY HAVE NOWHERE TO LIVE.

OTHER GROUPS THAT ARE SERVING THE NEEDS OF THE HOMELESS INCLUDE LOCAL CHURCHES AND TEMPLES. THE NUMBER OF FAMILIES HELPED AND THE TYPE OF ASSISTANCE PROVIDED FREQUENTLY GOES UNREPORTED BECAUSE RELIGIOUS INSTITUTIONS OFTEN TIMES DO NOT WANT TO MAKE PUBLIC THEIR MINISTRIES, OR INFORMATION ON THOSE THAT THEY HELP. WHILE THE STATISTICS ON HOMELESS PEOPLE VARY FROM PLACE TO PLACE, THE CAUSES OF HOMELESSNESS ARE NOT TOTALLY A MYSTERY...

MASSIVE RELEASES FROM STATE HOSPITALS OF MENTALLY DISABLED PATIENTS, THE EVER DWINDLING SUPPLY OF AFFORDABLE HOUSING FOR THE POOR, UNEMPLOYMENT... ALL ARE KEY CONTRIBUTING FACTORS IN DEFINING THE CAUSES OF HOMELESSNESS.

MY MESSAGE TODAY IS THIS... REGARDLESS OF HOW ONE VIEWS THE CAUSES OF THE HOMELESS CRISIS, A "NEW" NATIONAL POLICY ON THE HOMELESS MUST BE JUST THAT... A POLICY...

A SET OF GUIDELINES WHICH ENABLE LOCAL GOVERNMENT TO IMPLEMENT AND MANAGE FEDERAL PROGRAMS, BASED NOT ON A STANDARDIZED SET OF MANDATES AND REGULATIONS WHICH PIT COUNTY AGAINST COUNTY AND STATE AGAINST STATE, BUT A SET OF GUIDELINES BASED ON THE LOCAL NEEDS OF THE COMMUNITY, THE LOCAL ECONOMY, THE LOCAL COST OF LIVING AND THE LOCAL HOUSING MARKET.

THE URGENCY FOR A NEW NATIONAL POLICY ON THE HOMELESS AND ON AFFORDABLE HOUSING FOR THE POOR IS CLEARLY EVIDENT. BUT I STRESS THAT IF CONGRESS IS WILLING TO ACT ON THIS CRITICAL ISSUE OF THE DAY, THEN CONSIDERATION MUST BE GIVEN TO COUNTY GOVERNMENT(S), WHO ULTIMATELY MUST SHOULDER THE RESPONSIBILITY FOR IMPLEMENTING FEDERAL PROGRAMS AND LAWS... LAWS THAT SHOULD ASSIST, NOT DICTATE... LAWS THAT SHOULD ALLEVIATE AND AMELIORATE THE CONDITION OF THE HOMELESS... RESPONSIBLE LAWS THAT ADDRESS THE NEEDS OF THE INDIVIDUAL WITHIN THEIR RESPECTIVE COMMUNITY. LAWS THAT RECOGNIZE THE ABILITY OF LOCAL GOVERNMENTS TO ADDRESS THE PROBLEM WITHOUT MILES OF RED TAPE.

IT IS NOT SUFFICIENT THAT WE OPEN THE FRONT DOOR OF OPPORTUNITY FOR PEOPLE IN NEED WITHOUT CLOSING THE BACK DOOR OF DESPAIR AND HELPLESSNESS WHICH BROUGHT MANY TO THAT POINT TO BEGIN WITH.

WE MUST ADDRESS THE EQUALLY IMPORTANT NEEDS OF PROVIDING HOUSING TO LOW INCOME FAMILIES.

AFFORDABLE HOUSING FOR THE POOR, SUCH AS IT EXISTS IN SOUTHERN CALIFORNIA, IS BASED ON A NATIONAL INDEX. FUTURE LEGISLATION REGARDING AFFORDABLE HOUSING MUST BE TIED TO THE HOUSING COSTS OF THE LOCAL ECONOMY. WITHOUT SUCH CORRECTIVE LEGISLATION WE CANNOT SUCCESSFULLY ADDRESS THE TEMPORARY HOUSING OF THE INDIGENT INTO A BOOT STRAP PROGRAM OF PERMANENT HOMES FOR THOSE OF LOW INCOME.

IN SEARCHING FOR A NEW POLICY, I BELIEVE WE SHOULD REAFFIRM SOME OF THE OLD TRIED AND TRUE BELIEFS WHICH HAVE CARRIED THIS COUNTRY THROUGH PAST NATIONAL URGENCIES... COMPASSION FOR THE WEAK, CARING FOR THE ILL, INDIVIDUAL INITIATIVE AND A RESOLUTE FIRMNESS IN HELPING THOSE WHO CANNOT HELP THEMSELVES. COMBINE THESE QUALITIES WITH FEDERALLY SANCTIONED

LOCAL GOVERNMENT AUTHORITY TO ACT, AND WE CAN MOVE TOWARDS RELIEVING WHAT, BY ALL STANDARDS, IS A NATIONAL HUMAN TRAGEDY OF ENORMOUS PROPORTIONS.

THANK YOU.

CALIFORNIA HOUSING AUTHORITIES ASSOCIATION
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(916) 444-0288

Arnold Sternberg
Executive Director

STATEMENT OF

Robert Wills
President

CALIFORNIA HOUSING AUTHORITIES
ASSOCIATION

Before
a
Joint Hearing
of the

Senate Subcommittee on Housing and
Urban Affairs

and

House Subcommittee on Housing and
Community Development

on a

New National Housing Policy

April 7, 1988

UCLA Center for Finance and Real Estate

RETHINKING FEDERAL HOUSING POLICY:

In Search of Local Relationships and Programs Which Work

As we debate what shape our federal policy and a reaffirmation of our national commitment to housing the poor shall take, we must not lose our perspective of the past history of our federal government's evolving housing policy. From its inception, one of the prime ingredients shaping that national policy has been the development of a working relationship between the federal government and local government, and its' constituencies.

While we can all argue at great length about the nature of the roles of these two partners, most would agree that each has a stake in our efforts to resolve housing problems. Furthermore, the need for a working relationship between these partners has never been greater. Therefore, as we rethink federal housing policy, we must pay careful attention to how this policy fosters local relationships which can work effectively to address the housing problems of the poor.

As we look towards fostering local relationships, which work, it's apparent that Public Housing Authorities, especially those authorities serving rural and urbanizing communities, are often being overlooked. Yet within these communities, these housing authorities provide an important resource for both the production and the preservation of low income housing. It is these authorities, often modest in size but with extensive accomplishments, which have, in the half-century existence of the traditional public housing program, delivered housing for the very poor. It is their record of public accountability in the production, maintenance and management of their properties which sets them apart from their larger, totally urban counterparts, whose own experiences have more often then not, shaped low income housing policy.

Bolstered by public and political acceptance in the local communities in which they operate, these authorities have a capacity, demonstrated over time, as outstanding full service housing providers with an ability to capture and use federal, state and local resources.

In California, as in most other states, these authorities with their boards of citizens and elected officials, their experienced staffs and management, provide a ready-made, quick delivery system for housing programs across-the-board. Moreover, these public, not-for-profit agencies require no technical assistance, no seed money, no start-up time, to become operative. This extensive network is now in place and operative, brought into being and existing for the sole purpose of providing housing and related supporting services for low income persons and families. It is a local resouce which can be used to provide technical assistance to other community based organizations desiring to become involved in the housing delivery system.

In California, as elsewhere, these authorities have now in law, broad powers, with which to accomplish their mission. Public housing agencies can, and do among other things:

- **Own, operate and manage public housing.**
- **Own, operate and manage, through purchase or lease, private housing.**
- **Rehabilitate and construct housing using both public and private (conventional) financing.**
- **Exercise eminent domain powers.**
- **Issue tax-exempt or taxable bonds with which to finance housing development.**
- **Operate rental assistance and subsidy programs for local, state and federal governments.**
- **Own, operate and manage, or contract to operate and manage special-user housing, programs for the homeless, developmentally disabled, and the seasonal migrant farmworker.**
- **Accept donations.**
- **Enter into joint ventures.**

In the current housing environment, housing authorities have adapted to provide mortgage credit certificates, to create new single family home ownership opportunities, and to enter into joint ventures with private entities to provide a myriad of local housing programs. In short, the public non-profit housing authorities, with demonstrated capability to do the job, need not be reinvented or revamped. They already exist. They already get the job done; and do it sucessfully.

What then is required to further enable these public agencies to do the job they were set up to do 50 years ago?

First, they need a firm national policy committed to providing the funding necessary to solve the overwhelming problems of making housing affordable for all segments of our society. They require a federal government commitment commensurate with the magnitude of the problems they face, just as the defense of our country and its freedoms requires and has a commitment commensurate with the magnitude of our foreign policy programs and problems.

Second, given that level of funding commitment, they require program flexibility enabling each authority to make the greatest and best use of resources in the particular housing markets they serve. Programs conceived in and administered out of Washington D.C., which are based exclusively on the housing needs of eastern cities and large urban centers by their nature, do not take account of or permit the most efficient use of resources in housing markets as volatile as those in the exploding growth areas of California or any other population-boom market.

This flexibility of program use is one already mastered by public housing agencies experienced in moving with equanimity from Section 23 to Section 8; to Vouchers; from 221 (d) (3), BMIR and otherwise to 236; from tax shelters and depreciation mechanics; to ACRS; to tax credits. All the while maintaining their traditional public housing role in exemplary fashion. It is program flexibility which provides that adaptive fabric so necessary for nurturing the local relationship needed to effectively address the housing problems of the poor.

In summary then, the purpose of this statement is to remind you that the delivery system for affordable housing is already in place in the form of numerous successful locally owned and operated businesses - the public authorities, the public non-profit housing agencies. Furthermore, any national housing policy which ignores or overlooks this fact, will simply fall short of its' mark.

The wheel need not be reinvented, only the federal, the national commitment is lacking.

City Council of the City of Los Angeles

Ernani Bernardi
COUNCILMAN
SEVENTH DISTRICT

ROOM 240 CITY HALL
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TESTIMONY BY

LOS ANGELES CITY COUNCILMAN ERNANI BERNARDI

SUBMITTED FOR THE JOINT HEARING OF THE

HOUSE AND SENATE HOUSING SUBCOMMITTEES ON A

NEW NATIONAL HOUSING POLICY

April 7, 1988

Chairman Cranston, Ranking Minority Member D'Amato, and Honorable Committee Members:

I regret that your schedule prohibited me from appearing before you in person today to discuss the current major housing crisis that exists in the City of Los Angeles, a crisis that mandates an immediate reexamination of local, state, and federal policies and programs with the goal of developing new methods of increasing the supply of affordable housing.

I appreciate the fact that United States Senator Alan Cranston, Chairman of the Housing and Urban Affairs Subcommittee, has called for the building of "...a new commitment to decent, affordable housing in America."

During my 27 years of service on the Los Angeles City Council, I have shared the concerns that Senator Cranston has voiced regarding the need for a new housing agenda to cope with the problems of the growing number of men, women and children who are homeless, families living in poverty, and low-income families.

In recent times, as the needs of these groups grew more critical, the City Council and the Mayor of the City of Los Angeles repeatedly have been forced to face the fact that our housing policies have been woefully inadequate.

The preamble to the 1949 National Housing Act contains a clear statement of national policy and objectives on housing. It declares that "the general welfare and security of the nation and the health and living standards of its people require housing production...sufficient to remedy the housing shortage...and the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family." Add the word "affordable" after "decent," and the 1949 policy is even more relevant today.

A recent housing report by our Chief Legislative Analyst, which I am submitting along with my testimony, contains alarming figures that indicate that the City of Los Angeles is regressing at an accelerating rate.

The older sections of Los Angeles have some 1,586 apartment buildings and hotels, all of unreinforced masonry, pre-1934 construction, that house an estimated 181,300 low-income tenants. Our earthquake safety law requires that these buildings must be re-engineered to meet our seismic safety standards. Only three years remain in the 10 year period allowed for this to be accomplished. Yet, the fact is, that because of the high cost involved in such construction work and the difficulties of securing private financing, only 150 of the buildings have been made to comply with our minimum standards in the past seven years.

It is probable that the owners of many of the remaining buildings will choose to demolish and convert the property to higher-income uses, thereby substantially reducing the city's stock of affordable, low rent housing. Low income tenants will suffer, too, if their buildings are brought to seismic code requirements under private, high-cost financing because the resulting higher rents will be beyond their ability to pay. Where are these tenants to go? Today, we have no replacement housing to offer them.

A second major cause for concern is the area of federally subsidized housing. The CLA report states that contracts for approximately 24,000 federally-assisted housing units will begin expiring in the next two years. This will cause the rent for a one-bedroom apartment to increase from $180 to $530 per month, again far beyond the tenant's ability to pay.

Currently, these subsidized unit house from 40,000 to 60,000 low and moderate income tenants. Where are these tenants to do? Today, the City of Los Angeles has no replacement housing to offer them.

For years, I have warned the City Council and the Mayor that the City's housing policy was destined to bring us to just such a crisis. Yet, we continue along the same myopic path.

We assist developers with bond financing for their projects, and in return, make only minimal demands upon them for units for low to moderate income tenants. Instead of requiring that the low to moderate units be maintained as long as the property is zoned and used for residential apartments, we let them off the hook with stipulations that they may raise the rents to market rates in 15 years.

The City must adopt a tougher position in negotiations with developers; we must provide more units for the low income and very low income and require that those units be maintained for much longer periods.

In light of the serious housing crisis the City faces today, it is certainly no solice that the supply of federal housing dollars is shrinking, from $26 billion in 1981 to $7.5 billion in 1987. However, I believe that the City of Los Angeles cannot afford to stand idle while our petitions bog down in Washington's budget debate.

The City Council is now in the process of evaluating a wide range of housing recommendations submitted by all involved city departments that were outlined in the CLA report.

I believe that we should begin by placing top priorities on specific housing goals: 48,000 units approved by voters for construction but never built; 16,000 units already built and earmarked for low and moderate income tenants by our "15% Ordinance;" and more than 40,000 units in the seismically unsafe buildings that could be lost within three years.

Since 1973, city voters, much more sensitive to the problem than their city government, have overwhelmingly approved the construction of 52,000 new units of low income and senior citizen housing. Some 30,000 were to be built by the city and 22,000, by private developers, with placement in small increments throughout the city, about 3,500 in each of the 15 Council Districts.

To date, only 4,000 of the voter-approved units have been built. The cost to construct the remaining 48,000 units is estimated at $3 to $6 billion.

The City's "15% Ordinance," which I sponsored, requires developers of projects of five or more units to make a "reasonable effort" to make available 15% of the units for sale or rental to low or moderate income households.

Since the ordinance was adopted in 1974, the city has acquired a permanent lien on more than 16,000 units throughout the city, units which could house from 40,000 to 60,000 low and moderate income tenants. The lien requires that the landlord check with the city regarding possible subsidized tenancy each time an earmarked unit is vacated. Today, only about 600 of these units are actually being rented to low and moderate income tenants, and the remainder are being rented at market rates.

The City's traditional excuse for this inadequate housing situation has been a lack of federal subsidies. Yet, we've been able to provide almost $1 billion in tax free bond financing for the construction of thousands of market rate units in some of the most exclusive, costly areas of the city.

The City's housing policy appears to be based on a variation of the "trickle down" theory; build more expensive units so that as the more affluent move out and up, the low to moderate income tenants can move in. Unfortunately, our theory has been no more successful than the federal government's version. Meanwhile, the gap between the haves and have nots is widening, making solutions more difficult.

As the City seeks to meet its housing commitments, it must continue to pursue federal housing dollars, but that should no longer be used as an excuse for inaction. The City also must develop its own source of funds.

The housing priorities I have discussed carry a substantial price-tag: $3 to $6 billion to construct the remaining 48,000 voter-approved units; $190 million cost to landlords to upgrade the 40,000 units in seismically-unsafe buildings, and $30 to $100 million annually to permit low and moderate income tenants to rent the 16,000 units now identified under the 15% ordinance.

I believe we should begin with the units already constructed. We must provide immediate assistance to landlords who face the seismic safety deadline to preserve as many units as possible for low to moderate income tenants. We must provide money in the budget so that greater numbers of 15% ordinance units can be rented as intended.

While we petition Washington for funds, we also can look in our own backyard, and seek a fair share from the Los Angeles Community Redevelopment Agency.

Urban renewal was initiated by the federal government after World War II for the primary purpose of removing slums and providing the tenants of those areas a healthful, safe environment, in essence to facilitate meeting the National Housing Policy. There is no need to remind you how far we have strayed from that goal.

The CRA is proposing to spend $352.2 million in 1988-89, an increase of 20% or $67 million over the current budget. Despite the severe housing crisis in Los Angeles, however, that 1988-89 budget includes a decrease of $17 million in housing funds.

Shouldn't people carry as high a priority as the downtown Library, the Convention Center, the Metro Rail, or the Arts Festival?

It is clear that a substantial portion of CRA funds must be committed to our housing crisis. As you no doubt are aware, Mayor Tom Bradley has proposed lifting the Central Business District redevelopment project spending cap to support a major citywide affordable housing program. That cap was set at $750 million as a result of a successful court action I filed against the CRA.

We don't have all the facts as yet about that proposal or what it might mean for housing, but I will continue to explore all avenues, including court, to see to it that the CRA meets its housing responsibilities in the City of Los Angeles.

Another possible sources of housing revenue: a fee or surcharge equally divided between landlords and tenants. Such a fee could guarantee a source of local reveneue to meet our obligation to low income households and help us provide matching funds should state or federal funds become available.

The City also must make tougher requirements for low and moderate income housing commitments from those who seek bond financing; improve our efforts in monitoring the fulfillment of these commitments; and focus more attention on the housing needs of very low and low income groups.

The City, with the assistance of the federal government, must improve the seriously deteriorating conditions in the existing city housing projects. I am told that federal law now prohibits us from removing tenants whose income has risen over the years so that it exceeds the qualifying entry level. Twenty-five percent of the tenants who live in our public housing projects fit into this category of tenants. Some City projects are in near-slum physical conditions; others have become the chief market for drug dealing. Neither the City nor the federal government can continue to ignore this situation.

In closing, I commend you on the attention you are giving our nation's housing crisis, and I wish you success as you develop a new national housing policy. I hope that the day will come when the City of Los Angeles, and the federal government as well, will achieve the objectives that the 1949 National Housing Policy envisioned for all.

LEAGUE OF WOMEN VOTERS OF LOS ANGELES
6030 Wilshire Blvd., Suite 301, Los Angeles, CA 90036 213-939-3535

The League of Women Voters of Los Angeles notes our dubious distinction as the homeless capital of the world. Those on the streets, sleeping in their cars and in the shelters are not just the alcoholics, addicts, mentally ill and bums. Many are just poor and unable to find or afford available housing.

If the only wage earner in a family of three works full time at or near the minimum wage he, or more likely she, falls way below the federal poverty line. As the CRA (Community Redevelopment Agency) builds "affordable" units for $600.00 a month rent. Los Angeles demolishes 2000 to 3000 units per year that rent for $300.00 per month or less. Where is that minimum wage earner to find affordable housing?

The City of Los Angeles has seen a backlash against homeless people as they increase in numbers and are visible in communities where they were never seen before. Putting people in recreation centers when it is cold and wet is necessary but does nothing to solve the long-term problem. Private shelters try to serve more and more people but as they do neighbors protest at the concentration of homeless in their area. Shelters, soup kitchens and drop-in centers are all essential but are only band-aids.

We in the Los Angeles League of Women Voters are particularly concerned with the women and children who are homeless. One estimate has said there are some 10,000 juveniles in Los Angeles County without regular housing. Many are runaway or throwaway adolescents unable or unwilling to return to abusive or disrupted families, many of whom refuse to take the juvenile back even if he or she wants to return.

In the suburbs 76% of all clients in shelters are under 35, which means many are young families. Women who are homeless may work for pay too low to pay for housing, they may be unemployed or under-employed and some have been abused or battered. They have been forced to leave their homes for the safety of themselves and their children. With no safe place to stay they are unable to cope with other problems to maintain a decent family unit.

The City of Los Angeles cannot begin to meet the needs of the homeless without the cooperation and assistance of all levels of government. Federal law includes the specific goal of a "decent home and living environment for every American family." It is time for change so that this goal is not just "pie-in-the-sky" but an achievable, viable way of meeting an undeniable basic human need.

Thank you for giving us this opportunity to speak about the concerns of members of the Los Angeles League of Women Voters.

Annette Hall
Homeless Study Director
League of Women Voters of Los Angeles
6030 Wilshire Blvd., Suite 301
Lo Angeles, CA 90036
213/939-3535

ROBERT R. OLSON
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LAKE ELSINORE, CA 92330
(714) 674-4915

SENATOR ALAN CRANSTON
WASHINGTON, D.C.

Dear Senator Cranston,

Enclosed is a concept paper on the organization of a National Development Corporation as a vehicle by which to implement a national growth management policy.

Ten years ago I campaigned for Congress on the above issue and received the enclosed written endorsement from Dr. Fred Case. Dr. Case is an Urban Economist and Professor at U.C.L.A. School of Urban Land Management.

I have been in the building business for close to twenty years. First, as vice president of a Real Estate Development company and currently as managing partner in a subdivision development program in Riverside County, California. In 1984 and 1985 I was president of a small company that developed the plans and engineering for a hi-tech home designed to meet the challenges of the growing population of first-time homebuyers.

My motive for attending the public hearing on affordable housing is to determine the possibility of presenting my ideas in greater depth to the Senate Subcommittee on Housing and Urban Affairs. My goal is to complete a feasibility study on the proposed concept that will lead to a demonstration project.

I would appreciate any feedback you might provide in regards to the enclosed comcept paper. Thank you in advance for your time and effort.

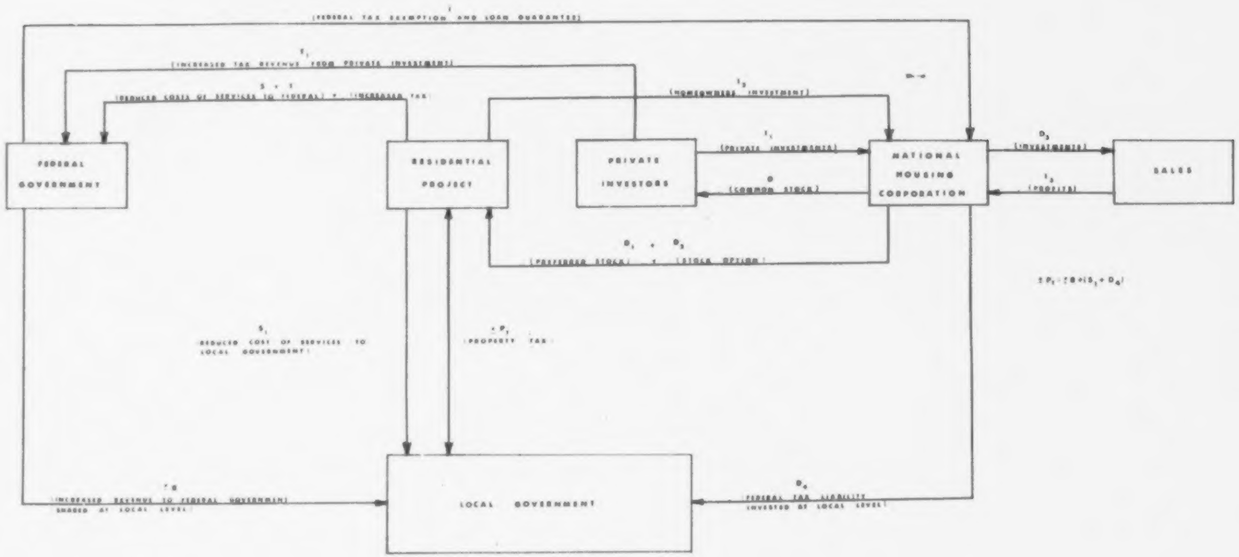
Sincerely,

Robert R. Olson

Robert R. Olson

CHART VI

A SOLUTION TO THE TAX SHIFT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I₂
(HOMEOWNERS INVESTMENT)
FEDERAL GOVERNMENT
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C
(COMMON STOCK)
NATIONAL HOUSING CORPORATION
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SALES
D₁ + D₂
(PREFERRED STOCK) + (STOCK OPTION)
ΣP₁ = ΣB+(S₁+D₄)
S₁
(REDUCED COST OF SERVICES TO LOCAL GOVERNMENT)
ΣP₁
(PROPERTY TAX)
ΣB
(INCREASED REVENUE TO FEDERAL GOVERNMENT SHARED AT LOCAL LEVEL)
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(FEDERAL TAX LIABILITY INVESTED AT LOCAL LEVEL)

CONCEPT FOR A NATIONAL DEVELOPMENT CORPORATION

SUMMARY:

The goal of this concept paper is to demonstrate how H.U.D. resources can be used to create a publicly chartered National Development Corporation, (NDC). The NDC will build infrastructure in both the inner-city and rural markets. Efficient planning and new technology will provide lower land costs for development, which is the key to solving the affordable housing crisis. The development program would be financed by a combination of public and privae investments. The use of existing public funds to stimulate economic growth in the private sector would increase government revenues and reduce the federal budget deficit.

BACKGROUND:

In the last one hundred years the growth pattern of this nation has been determined by a combination of new transportaion technology and public investment into infrastructure. The steam engine and public land grants to the railroads propelled westward expansion, while the internal combustion engine and public investment into our nation's highway systems produced urban sprawl. From urban sprawl came the anti-growth movement.

The location and size of our nation's highway systems determines local zoning ordinances. Power, water, sewer, and other public infrastructure systems then follow these road patterns, establishing property values. The demand for housing in major metropolitan areas is increasing faster than the technological ability of the system to accommodate increased growth. The supply of buildable land is being reduced at a rapid rate, driving up land costs and diminishing the supply of affordable housing.

Public investment into infrastructure determines property values. Inefficient government policies are driving up the cost of housing, and government loan guarantees are supporting overly inflated home values in major metropolitan markets. The solution is to make development along the existing infrastructure more efficient and develop a program that will open new supplies of affordable land.

NATIONAL GROWTH MANAGEMENT POLICY

The National Development Corporation is a vehicle by which to implement public policy. The NDC could be organized as a public and privately chartered business organization with a mandate to develop public infrastructure in both inner-city and rural markets. Land costs in these two markets is less expensive, allowing the NDC to develop affordable homes. In the rural markets, the challenge lies in developing new technology and lifestyle changes to reduce the pressure on existing infrastructure systems.

The Master Planned Satellite Development Program would concentrate its development efforts on inexpensive rural land. New technologies utilizing alternative energy, computer, and telecommunications equipment will maximize the efficiency of the existing infrastructure system. Solar electric cells would be used in conjunction with the local utility grid in order to reduce peak hour production loads; eliminating the need for additional nuclear or fossil fuel burning power plants in the future. Water conservation and recycling technology will be employed on a community-wide basis to solve sewage treatment problems. Solid waste could be recycled, and "smart house" technology could be used to reduce traffic congestion and air pollution.

Inner-city development requires a social policy able to provide for home ownership and the means of supporting such ownership. The NDC would require that twenty percent of all homes built under this program be reserved for low and moderate income households. Eighty percent of the homes would be sold to middle income and move-up buyers seeking affordable homes in well planned neighborhoods. Twenty percent of the homes reserved for low and moderate income households would be built to the same high quality specifications as designated for all other houses. The difference would lie only in the size and technological ammenities of the other units.

Community maintenance would be a part of NDC's responsibility, and would be used to maintain property values. Twenty percent of the homes would be sold to people who qualify for the NDC Sweat Equity Program. The NDC responsibility is to identify new jobs being created by the development program and provide job training to meet those new opportunities. The individual responsibility is to complete the training course and use his sweat equity as a down-payment on a new home in a hi-tech middle class neighborhood. The NDC would build satellite communities five times faster than in the inner-city. This would allow low income people to be integrated into mainstream middle class neighborhoods.

FINANCING:

The NDC would finance its operation with a combination of public and private investment capital. In the public sector it would be the lead government agency for the development of public infrastructure. It would coordinate the budgets of all federal agencies that invest in infrastructure.

Assume that a portion of budgets of H.U.D., or the Department of Transportation and other government agencies were channeled into a twenty billion dollar a year infrastructure development program. The corporation would use this as seed capital to finance its development plans in the private sector of the economy.

The corporation would function as a National Subdivider and would sell or joint-venture with private builders for the construction of the projects. Land and improvements are approximately twenty percent of the value of a new home. The twenty billion in public investment would equal one hundred billion dollars in private economic growth, which would equal one million new homes per year. This would also provide for two hundred thousand low-income units per year, and the profits or fees that the corporation receives for its investment would be used to finance low income programs.

Government taxes would be generated on one hundred billion dollars worth of economic growth. This, coupled with the reduced cost of government services would increase the marginal efficienty of capital for public investment into infrastructure. If this were to happen, it would be possible to use an affordable housing program to reduce the federal budget deficit.

CONCLUSION:

The success of the NDC depends upon the ability of the corporation to produce a high quality home in an environmental and socially secure neighborhood at an affordable price. Sales is the driving force that will determine the success of the NDC Program.

February 24, 1978

Mr. Robert Olson

Dear Mr. Olson:

I have examined carefully the varieties of material which you provided on energy self-sufficiency. Your ideas coincide with the growing number of experts in the energy field who believe that more attention today should be paid to ways of conserving energy, recycling it and finding new sources. The Space activities showed that we have the technology to create a totally energy self-sufficient habitat which can survive in the most hostile of environments. There is, therefore, little reason why we should not use this concept in planning our cities and our homes.

One of the highest costs for a city is the installation and maintenance of sewage lines, water lines and other kinds of utilities. Furthermore, the individual homeowner has very little opportunity to affect his costs of energy through his own devices. If only modest amounts were invested in improving technology capacity, it is entirely possible that single-family homes could be made totally energy sufficient. They could be provided with technology which allows them to use wind and solar power and recycling processes which would give a continuous supply of heat, air-conditioning, pure water, sewage and trash disposal without having to call on public utilities to provide these services. On a more conservative view, it might be possible to create technology which would require the homeowner to be serviced by public utilities only three-six months instead of continuously.

Another difficult problem facing cities is the extravagant use of land and the high cost of bringing public utilities to some of the more inaccessible urban areas. Again, energy self-sufficiency would permit much of the land now in our cities to be used more productively for single-family homes at modest prices.

As you can see, I am thoroughly enthused about your ideas. Perhaps I have extrapolated them further than you have intended. I do assure you that my extensions of your ideas are based on much of the reading which I am now doing in the field of energy and energy conservation. There is a good solid base of research, theory and fact to support what you are suggesting.

Sincerely yours,

Fred E. Case

Fred E. Case, Professor
Management, Real Estate
and Urban Land Economics

FEC:rl